DISTURBING ELEMENTS IN THE STUDY AND TEACHING OF POLITICAL ECONOMY

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TO

J. H. H.

PREFACE

The following lectures were delivered in the Johns Hopkins University, Baltimore, April 25–29, 1910, to the Economic Seminary, at whose desire, by the courtesy of the University, they are now printed.

As the title suggests, they are discourses not on economic error in general, but on the more subtle fallacies which are apt to invade the reasoning of trained economists in spite of learning and discipline.

Such errors creep in from a popular political philosophy (Lecture I), from want of any political philosophy (II), from mistaken aversion to theory (III), from the shortcomings of common or technical language (IV), and from the wrong handling of distinctions of time (V).

That the course of the reader may be smoother, the needful notes are confined to an Appendix.

Ottawa, December, 1910.

CONTENTS

Lecture I

"LIBERTY, EQUALITY, FRATERNITY"

All of us have been students; many of us will be teachers, in the narrow sense; all of us, we may hope, in the wide sense. The subject before us is therefore in a fair way to be familiar.

Certain aids in study and teaching are apt to become hindrances when tenderly fondled. In order, for example, to overcome our own bias in thinking, we may adopt another man's bias, as a too conscientious judge on the bench may be unduly severe to his own kith and kin. It is as if we compound for sins we're *not* inclined to by damning those we have a mind to. It is a failing that besets students young and old, and it may appear, *mutatis mutandis*, even in teaching.

Then there is a pitfall more especially for teachers in John Mill's plan of "saying more than the truth in one sentence and correcting it in the next." There is a risk that the first sentence may hold the field, and the listener forget the warnings with which the utterance of it was accompanied.

Such risks occur in all studies dealing with human society if not in all studies whatsoever. One of the most common of other temptations is

the temptation to hold fast to an opinion simply because we have begun holding it; it is "our own," and we should seem weak to give it up. A more vulgar fault is to reject an opinion because we dislike the holders of it, and would rather "err with Plato" than be right with them.

An exhaustive list of such besetting sins would be so sad a catalogue of mental infirmities that we might well be scared away from study altogether. But there is a difference between consciousness of fallibility, in ourselves and others, and despair of all knowledge. Even political economy has made visible progress in the last hundred and fifty years, in spite of disturbing elements that the later economists have duly perceived in the earliest, and the latest as duly in the later. To look at one or two of these elements may help us to enter into the difficulties of the subject itself, and may show us how they have in some degree been overcome.

The first that presents itself may be described roughly (on Mill's plan of an economy of truth) as Watchwords.

Are there such things as 'watchwords' in political economy? We are familiar with them in politics and social reform: "Liberty, equality, fraternity," "No taxation without representation," "Peace, retrenchment, and reform," "The land for the people;" and, if we are worthy hearers, the words stir the blood; they keep us awake and watchful; and we think we know what they

mean. Men have tried to sum up religion in the same way, as 'faith, hope, and charity' or 'love, order, and progress.' It seems a natural tendency.

But a watchword is a detached phrase that has taken the place of an argument. It is even, with sluggish minds, the substitute for an argument, a catch-word. Of course it need not always be the sign of a sluggish mind; it may mark the peculiarity of a strong mind. Our intellectual leaders may be divided, in the formula of the old logical books, into men of terms, men of judgments, and men of arguments, to be called, in the profounder cases, men of ideas, men of principles, men of reasonings. Some writers are remembered by their happy epithets, as Cobbett by "the old lady of Threadneedle Street," Sydney Smith by "a book in breeches"; some by their apothegms and epigrams as Bacon by "Nature is not conquered except by obeying her," Bentley by "No man was ever written down except by himself,"Schiller by "The history of the world is the judgment of the world." This second class (men of judgments) even more than the first contains the poets, and writers like Carlyle and Ruskin who are near kin to the poets. The third class is the class of scientific men and philosophers, and let us hope political economists, men who are celebrated for their disentangling of fallacies and demonstration of the truth, the truth as the conclusion of an argument, not as asserted in a dictum from intuition, men who test all things before holding

fast to that which is good. It may happen that men mainly belonging to this third class have the powers of the others also. Reaching a principle by reasoning they may bring it home to others by epigram or epithet, which makes sleepers wake up and ask themselves whether truth may not lie in this novelty rather than in their old common places. A watchword, too, may revive a reasoned faith as well as an unreasoned. It is quite impossible for us to run over our reasonings every time a controverted subject is started; we should have no time to take further steps. The important condition justifying our assumption of a principle is that we have at one time fully reasoned it out and could on occasion do it again.

This is what my old master in philosophy would have called the "relative vindication" of watchwords. But, though the influence of them forms an interesting study for the historian, they are hardly an aid to the serious student of political philosophy, still less of political economy. They are almost indispensable to the agitator; but the agitator is seldom looking for truth; he thinks he has already arrived at it. When watchwords are sufficiently full to convey a proposition (as "Peace, retrenchment, and reform" may do), it is a proposition seldom quite true or helpful, seldom more than a half-truth. In political economy especially, we may almost say roundly that you cannot put arguments into few words, still less convey their whole result into a detached phrase like a watch-

word. A legal friend of mine was once reproached for the long sentences of lawyers' documents. He answered that if we could tell him any other way than long sentences to make the meaning of a document quite clear he would admit the reproach, but not till then. Even as it is, in English law, the discovery of ambiguities is not infrequent. Conceive what a chaos there would be if less pains were taken.

Since it has been acknowledged that watchwords are of little help in political economy, it may be asked: why should this subject be chosen here?

The answer is that the existence and prevalence of such watchwords will sometimes account for an otherwise unaccountable bias in the reasoning even of strong men (of the reasoning class). The watchword is often a walking prejudice; its familiarity keeps alive conclusions inconsistent with the strong man's own reasonings. It does not belong to his own particular range of study but comes from the street into his room, like the notes of a passing band of music, awaking old memories and associations. Sometimes it is a political watchword that influences the economist, or a maxim of journalism that influences the statesman. Of the last kind is the saying, "Statistics can prove anything"; of the first is the watchword "Liberty and Equality." The full French formula, "Liberty, Equality, Fraternity," has probably affected economics less than the shorter American "Free and

Equal." Still it has had its share of influence, and (we might agree) in a right direction.

But, where there is a latent principle at work, it should be made patent; it should be either vindicated or else frankly postulated, that it may be contradicted by those (in this case, say Fitzjames Stephen) who do not believe in it. Some such work needs to be done for economics as was done by Cornewall Lewis for politics in his *Use and Abuse of Political Terms*. Ambiguity of terms often involves covert assumption founded on the ambiguity; and it is one of the tasks of the economic student to get rid of ambiguity as far as he can. One of the causes of it undoubtedly is that a non-economic meaning lingers in the mind of the economist in spite of his own economic definitions; and perhaps this has been so in the case of the word "liberty." All through the *Wealth of Nations* some of us think we see the influence on the writer's mind of the idea of political liberty. His notion of economic liberty is the removal of all restraints that prevent the commercial ambition of individuals from realizing itself according to the lights of the individuals. Such a removal of restraints he calls a "simple system of natural liberty." He thinks that its establishment (or, if the term "natural" implies an "original state of things," the *re*-establishment of it) would increase the wealth of nations greatly. It is not, indeed, essential to the commercial ambition or to the increase of wealth through it; in spite

of the restraints, progress has been made; in fact the results of the commercial ambition itself have often been the means of removing the restraints on it. Adam Smith differs from Quesnay on this point. And it is not anarchy, either in a good sense or a bad, that he desires; he retains the restraints of law and order. He even wants a strong government to make rights secure. If the "politician" is his enemy, associations and companies are so also. Both of them seem to him to have taken away the rights of the individual man. His claim for "natural liberty" is a sort of Declaration of Independence in industry; and the political analogy is not far from his mind; he speaks of "the great mercantile republic" and of the various countries under his system as resembling "the different provinces of a great Empire." His units are by preference individual citizens of such an empire, well established in their legal rights and equal in their privileges. Plenty of good land, *and liberty to manage their own affairs* seem to him the great causes of progress in all new colonies, and of course he had the United States most in mind.

You will observe that equality is also regarded, in this statement. The *liberty*, however, in industry would, he says, procure *equality* of remuneration if there were no interference from institutions. Where institutions (and conquest) have already supplied a man with privileges, it is not the case that equality results; witness the rents of land. But the interference is more easily taken away in

the case of capital and enterprise; there, therefore, equality of rate of profit will result, from liberty. There may not be equality of advantage in all bargains, but the sense of injustice will be removed.

We may be far from denying those propositions; but we should probably alter the emphasis, the insistence on liberty. We should try to range the conditions coördinately. But due coördination is hard even for a modern economist who thinks abstractly. It was hard for a metaphysician like Descartes, after he had set up his *Cogito, ergo sum*, and was trying to come down again to the concrete world. The age you live in is apt to fix the emphasis for you.

An English writer says that men become more discontented the more freedom they have. This, translated into the language of economic psychology, means that men's wants are enlarged with every fresh degree of liberty allowing development of them. But an age in which there is little liberty is likely to be more optimistic than our own age, because progress in mere liberty, in the sense of removal of restraints, is more gross and palpable than progress in other directions, say equality of opportunity. The optimism of Adam Smith sometimes astonishes us. He is quite sure he is living in a progressive age. Yet the condition of England then seems to us now far from admirable. Thorold Rogers put the Golden Age in the fifteenth century. But the actual increase

in the eighteenth century of political liberty was not doubtful, and the steps to be taken toward it were tangible and evident. Our faith in progress now is more worthy of being described as a faith. There is much truth in Ruskin's dictum "Our efforts are inconstant almost in proportion to their nobleness," though it is well for us to forget the instability on most occasions or at least during the battle. The obtaining of something more than political liberty is our own problem. A great many chains have been knocked off since 1776; we have to see what can be made of the human beings thus enfranchised. Their enfranchisement pre-occupied Adam Smith.

His "classical" successors seem at first to have no political preoccupations. They are often described as abstract economists. Nevertheless their emphasis was determined for them by Bentham's political maxims; and the effect was that they assumed an equality of units where it did not exist and was not very evidently coming. Equality in fact was their preoccupation. It was not Bentham that gave to this idea its importance. As the course of events in America led to the prominence of the watchword of "liberty" in Adam Smith's days, so twenty years afterwards the course of events in France did the same for "equality." The attainment of equality (except so much of it as is involved in liberty) was far harder; but there is no doubt of the existence of an endeavour after it on the part of all sympathizers with the ideas of the Revolution.

Bentham formulated this idea of equality in legal language, and from legal language and the language of his utilitarian philosophy it passed into economics. This is a commonplace; but perhaps the whole consequences of this fusion or diffusion have not been drawn out. Adam Smith's aversion to associations was perhaps due to practical experience, or observation, of unfortunate associations in his own day rather than to his principles. But Bentham may be said to have supplied a basis for the aversion. It is not that all utilitarianism involves it; Malthus was a utilitarian, and he shows little of it. But it is involved in the notion of the Greatest Happiness of the Greatest Number interpreted as Bentham interpreted it;—each human being is a unit, and society is simply the addition of such units. In our time the family is more often taken as the unit. But essentially, to Bentham, every man is for himself; he pursues his own pleasure, and his is worth as much as another's. It was as if Bentham had said that, to be really free each man must stand alone; and, he would like to have added, each woman also.

Ratification of things as they are is hard indeed when equality is the requisite regarded. But it was thought possible in a measure, because it was possible to abstract from all differences. Bargainers may not be equal otherwise, but in being bargainers they are alike; they are equally alert to their interest or must be presumed to be so. The economic man in all countries is in this re-

spect supposed to be the same. There is a maxim of the school of Bentham, "Every one to count as one, and no one as more than one"—made current by John Mill. Like a saying to which T. H. Green gave currency as from Kant ("The Understanding makes nature, but does not create it"), the quotation has not been traced to the earlier author; but in both instances the maxim seems pithily and truly to represent the mind of the head of the school expressed by a disciple.

It is the atomic theory in political economy. The atomic theory in physics is now in danger; perhaps in social philosophy it is nearly dead now. But to Bentham and Ricardo and James Mill it was by no means dead. The rule of the majority as ascertained by addition of units seemed justice, and the competition of economic atoms gave the economic situation. The same idea is put forward, in very old-fashioned dress, by some of those who would break up trades unions; they insist that enlightened persons recognize only the separate atoms, their bargain is always with the separate men.

Economically, Ricardo, James Mill, and J. R. Macculloch are representatives of this school of economists. Their emphasis lies on the equality (or identity) of the economic units. Of course in any profitable sense equality takes liberty for granted. An equality of slavery would not be of much economical value. Those men undoubtedly include in their programme the liberty advocated

by Adam Smith; they are political reformers in this sense also. But the claim for equality was less generally conceded, and therefore they insist on it more. The equality is like Adam Smith's liberty, negative in character. Remove obstructions and men are free; remove their differences they are equal. Unfortunately, though you can do both in thought, it is even less easy to do the latter in *fact* than the former; and, though the political effect of Bentham's teaching was of a levelling character, the economical was sometimes quite otherwise. It meant the survival of the economically strongest among those all equally competitors but not at all equal in the competition. This would be true even where the liberty in the negative sense was perfect, a state of things never realized, though more nearly approached now than formerly.

The men who from the first felt the inadequacy of the negative idea both of liberty and equality were the social reformers. Malthus himself was one of these. Adam Smith, though he is said to have taken an interest in Sunday schools, had no passion for social reformation, but rather the intellectual interest of the philosopher and observer. That he was a respectable patriot and took great interest in *la haute politique* by no means disproves the general contention. Malthus, on the contrary, had a touch of the enthusiasm of humanity, and the distresses of the poor haunted him. Hence his efforts to find a way of escape from the appar-

ent consequences of his own theory of population, efforts not entirely unsuccessful. He broke away from what he called the New School of Political Economy for adequate reasons given, affecting cost, supply and demand, and rate of profits; but it is possible there was a half-conscious revolt in his mind against principles more fundamental. His unit was rather the family than the individual, though he never confessedly broke with the older principle of individual liberty as Adam Smith stated it.

The school of Bentham, we are told, put "Malthus on population" in the forefront. But here again their idea was negative. Population must be restricted. The improvement of the standard of living is the positive side of the matter, and it is the side preferred by the maturer Malthus. It means more than restriction, though restriction is involved in it. But the idea of the Benthamites was that, by keeping down the number of units you increased their value and ability to find food. They laid the emphasis on restriction. The followers of Owen and of St. Simon were led away from the individual to magnify, perhaps unduly and prematurely, the virtues of association. It is curious that Malthus, Ricardo and Bentham himself are all found among the patrons of Robert Owen, and not only of Robert Owen the benevolent despot and employer and capitalist of New Lanark, but of Owen when he was beginning to develope his *New View* and new views. That they dropped

him is not unnatural; many reasons could be found for dropping the full-fledged Robert Owen;—but they may have had an inkling that this man had something which their own theories wanted.

The course of economics, however, was not directly influenced either by Owen or the French speculators. John Stuart Mill was the writer who induced economists to recognize that more than their bare liberty and equality was needed, not only to rejuvenate society, but even to give a full account of the economic situation. If we are right in speaking of liberty and equality as the two watchwords that had most influence in the two first stages of economic doctrine, then fraternity must be recognized as having a great share in the moulding of the doctrine in its third stage.

Even if John Stuart Mill keeps the main features of the classical economists in his political economy, he does not, like his father, erect political economy into a political philosophy. He sees the very different features of society that modify the conclusions of economics as soon as concrete application is attempted. Political economy is to him part of a sovereign social science, but it is not itself the social science. If the laws of production seem to him little affected by human will, the laws of distribution seem very much so affected. Even population which comes under the head of production is not left unmodified by human will; Malthus (Mill said), instead of shutting the door to human progress, had really for the first time

opened it. But the idea of fraternity appears to sway Mill most in his dealings with distribution and especially the various schemes for a better distribution than the present. Those schemes with which he is most in sympathy involve association in one shape or another. There are no doubt two apparently conflicting tendencies at work in his mind, his father's views and the new views he had learned from the French writers of his early manhood, not only Utopians like St. Simon and sociologists like Comte, but historians like Guizot and De Tocqueville. The historical method was growing up and Mill's mind leaped to it. It is curious that it plays so small a part in his *Representative Government*. The Essays on *Liberty* and on the *Subjection of Women* also stand out by themselves, unaffected by this change in his thought. He seldom tried to rewrite his old books when he made new discoveries or advanced from one thought to another. Perhaps, like Ricardo, he found the publishers a formidable obstacle to the rewriting of first books. His changed views on the wages fund, expressed in a magazine article, are withheld from the readers of the *Political Economy*. Some of his later books could almost be taken as criticisms of the earlier. His socialistic leanings and his homage to the historical method are hardly to be traced at all in the essay on *Liberty*. In that essay the evil in the domination of public opinion is brought out far more emphatically than the good in it. It may have been that the two tendencies were

equally balanced in his own mind, towards orthodoxy and towards revolution. We hear from him in the *Political Economy* that the classical economists have not allowed enough force to the socialistic criticisms of competitive commerce and also that the socialists have never fully understood the virtues of competition.

Yet as economists we must judge him by his whole *Political Economy*; and, coming where it does in the *Political Economy*, the indulgent view of Utopian schemes shows distinctly that he wished to introduce their associative principles into the body of economic doctrine. He has so persuasively introduced them that they cannot now be dislodged. No economic students would now be satisfied with a text book that said nothing of socialism or coöperation. Small wonder that Mill should have done this service, seeing in his view the problem of the future was "how to unite the greatest individual liberty of action with a common ownership in the raw material of the globe and an equal participation of all in the benefits of combined labour." These were his and Mrs. Taylor's opinions, and we know how that lady seemed to him to mould his thoughts.

It is a fairly safe conclusion that the ideas not only of liberty and equality, but of fraternity, will always be with us, and we may thank Mill for securing to the last its *entrée* into the good society of political economists.

This may be as it ought to be. Yet the idea

of fraternity is not even so clear as the other two ideas, liberty and equality. Our present notion of liberty, that has been gradually forming itself in the last twenty-five years, is of the command of opportunity for development rather than the confronting of a cleared course where all obstacles are removed. It is positive, not simply negative. In the same way our notion of equality is of equal opportunity. Is our notion of fraternity to be that of mutual aid in self-development as well as mutual aid in the development of material resources?

Instead of answering this question directly, we may look for a moment at the rejoinder to Mill's *Liberty* put forward by James Fitzjames Stephen under the title of '*Liberty, Equality, Fraternity*' (1873). The preface is dated March thirty-first and Mill may never have read it, as he died on May eighth of the same year. The book is written rapidly in a conversational style; but it is the style of the conversation of a great lawyer accustomed to weigh his words even when uttering them rapidly, and well equipped by a busy life and large experience with facts and principles. Mill had known India only by being in the India Office; Stephen had taken part in the actual government of India on the spot. Stephen may be conceived, just on that account, to have a slight bias towards Satrapian heresies in politics, especially towards "a policy of resolute coercion." But he knew England also; and we must take his arguments as we find them.

Mill had not been content with such "liberty" as would have satisfied Adam Smith and Bentham. He has still a negative notion, removal of coercion; but it goes farther than theirs. The public authorities (he says) must not only secure to a man his property and his vote, but they must take care not to control the individual at all except where his actions restrict or injure others; they must not control him for his own good. Self-protection is to be the only ground of interference. Public *opinion*, too, should recognize its limitations and the virtue of free discussion for the attainment of truth. Without discussion actual or possible there is no assured truth, in Mill's judgment. At present "custom lies upon us with a weight heavy as frost and deep almost as life." Public opinion depresses originality by condemning eccentricity. But for the sake of its own progress society should leave the individual free and rather encourage eccentricity than hinder it. The same claim is to be made for *combinations* of men; they should have the same liberty, liberty especially to innovate.

Now the essay on *Liberty* is not an economic treatise, and its economic examples are few. Much of the essay deals with subjects not open to our discussion here. The virtue of free discussion is at least as undoubted by the wise in regard to economic subjects as anywhere else; and persecution is not unknown in this region. The opposition to innovations in matters economical has come

perhaps rather more from vested interests than from the weight of custom, though in old countries the cultivators are notoriously slow to listen to improvements. Modern civilized nations, say, the United States, England, Germany, have taken keen interest in novelties like marconigrams, automobiles, and air-ships. The greatest difficulty has not been in public opinion. The desire to hear and to tell "some new thing" is not peculiar to the Athens of Paul and Demosthenes. Mill rather exaggerates the opposition of public opinion to innovation.

Stephen makes light of this aspect of Mill's view, and concentrates his fire on the definition. Freedom, to Mill, is the removal of coercion; but in Stephen's opinion the removal of obstacles (which he is inclined to treat as the same thing) does not encourage originality; (as Malthus said) it is difficulties that generate talents, and a disciplined youth is likely to be more original than a youth never subjected to tutors and governors. Economically we should not care to push this doctrine far, so far at least as deliberately to leave difficulties in the way. Nature will provide and leave plenty of them; and we must not become Luddites in spirit and leave evil standing that good may come of it. On the other hand, we may agree with Mill that freedom must be left to combinations of men where they are not injuring the public; yet must remember that there may be no more mischievous coercion than that exercised by

a successful combination, a coercion not physical merely but "moral" or of the spirits of men. The question is whether their coercion of the individual is a greater evil than the freedom of the combinations is good, good from the point of view not of the sectional interest of the combination, or of the single interest of the individual, but of the whole community represented in the State. The answer may be made that the best general rule for the State is not to restrict the action of the combinations where physical compulsion is not used; and yet that general principle must give way to obvious general benefit, even at the sacrifice of the "liberty of the subject" to do himself harm. Prohibition and local option are certainly against Mill's principles, and so is the punishment of would-be suicides.

Stephen's position is "that the essence of life is force, and force is the negation of liberty" (as if the force could not be asserted against material nature). It is that "the rule of the strongest" is always a correct description of government even now, however veiled the pressure of the strength may be; and every government believes itself wiser than the governed and rightly imposes its wisdom on them; in fact, that at the back of all individual liberty is the coercion of Government; and (he goes on) the test of the goodness of its policy in a given case is not to be any abstract principle of liberty but a proved advantage or disadvantage of the course pursued and the probability or im-

probability of successfully pursuing it. The last item, perhaps, saves the situation for us. Sumptuary laws have a good object, but they cannot be carried out. Morality cannot be forced on a people, though outward conformity may (and may rightly) be. Provost Keate's saying, "Boys, if you are not pure in heart, I'll flog you," is laughable wherever understood. Most of all this is commonplace to us now; but some of us will think that, by advancing it, Stephen, if he refuted Mill, did not refute those who contend for a liberty that means access to opportunity for self-development.

The next question is really that of Equality. For whom did Mill claim that liberty? He claimed it for all human beings, mature, and sane, and civilized. There was to be no distinction of rank, property, colour, or sex. Here his essay on the *Subjection of Women* supplements his essay on *Liberty*. There is an extension of the equality preached by Bentham. Bentham himself held the same view, but never brought it into the foreground. As we all know, it is coming into the foreground now. Economically the question is not to be taken as settled by the circumstance that factory acts take not only children but women under their protection. It might quite well be held that if women had had the making of the laws the protection might have been secured better, or at least otherwise. Stephen's attitude is again hostile, but on grounds that do not concern us here, of physical weakness mainly. The

success of women in their present agitation is likely to have appreciable effects on industrial economy. It would seem as if the watchword "equality" had not spent its force altogether, in those quarters.

Much commonplace exists on "equality"; it is easy to prove that men are not equal, in what is called the plain meaning of the word. If equality means sameness or identity, absence of difference or of superiority or inferiority, then we all know it does not prevail. Economically such an equality would deprive the modern doctrine of value of a great deal of its point. Exchange could hardly be what it now is, nor could interest on capital. But the matter is not worth an argument. Those to whom "equality" was a watchword never meant that all for whom they claimed it should be held alike in every particular. What was most in the minds of the American patriots and French Revolutionaries was social equality. So far as it now means anything but impartial treatment in the laws and by the administrators of the law, it is bound up with "liberty." Whatever be our notion of liberty, the said liberty is usually claimed by us as a boon to be extended to all citizens impartially, liberty involving in the first place that all subjects should be citizens.

A large part of the civilized world has withheld this privilege from certain men because of their colour. The negro, the American Indian, the East Indian, the Chinese, the Kaffir, may be subjects

without being citizens, really or nominally. Economically the position of those men in our several countries is very different when equality and liberty are conceded and when they are withheld. They are withheld really if not nominally by all the white races except the English and given by the English only where the coloured people are a tiny fraction of the whole people, chiefly in England itself. Can we say it is because they are not mature or civilized?

Mill's reservation is quite sound, but we should all see to it that when the coloured people are mature and civilized they should have the rights, now accrued. The general dictum "liberty and equality" has not led many of us in this direction, and my own countrymen have been no exception to the rule.

It might conceivably be replied that the three watchwords go together, and we give liberty and equality to men with whom we can have fraternity. Stephen sums up very well what appears to be Mill's view: "If men are all freed from restraints and put as far as possible on an equal footing, they will naturally treat each other as brothers and work together harmoniously for their common good." It is easy with Stephen to give this a direct negative; but Mill's view applies not to savages or even to the Philistine world of a money-getting *bourgeoisie* but to the new world of modern civilization. Is it not the case on the whole that public spirit is found oftener and that men are,

more of them, more willing and even anxious to do something for their neighbours now than formerly? Stephen mocks at the idea that we can, in the full sentimental sense, love our neighbour, or that it is good we should do so. It is unlikely that the sentiment was in Mill's mind, but rather the good-will, which means the will to do good to others. In this sense, fraternity increases with all true civilization.

Elsewhere in human affairs we have often to work not upwards from the less to the greater but downwards from the greater to the less; we have first to secure the greater which includes the less. It is the way of the best religions and of many political and social movements besides. It was the supposed condition on which natives might receive the franchise in Cape Colony that they were found on due scrutiny to be "civilized," *e.g.*, in house and household ways. The same idea can be carried out in various directions. This is one—that the appeal to common sympathy is a claim for a union of men in which as of course every one has his liberty and equal treatment. The "fraternity" need not be a religion of humanity. That we are fellow members need not involve the feeling that we are members one of another. The French Revolutionaries were not very successful in appealing in their way to a common humanity and furthering fraternity by force. But in our own time social bonds are becoming tighter, and in a very large proportion of social problems groups

are becoming more important than individuals. Stephen says: "Whoever first gave the command or uttered the maxim, 'Honour thy father and thy mother, that thy days may be long in the land,'" had a far better conception of the essential conditions of permanent national existence and prosperity than the author of the motto, 'Liberty, equality, and fraternity.'" This is fine, but not fair to the motto. Fraternity and the family are not exclusive of one another. Stephen's *mot* reminds us of the kindred exaggeration in Gulliver's Travels: "The King of Brobdingnag gave it for his opinion that whoever could make two ears of corn or two blades of grass to grow upon a spot of ground where only one grew before would deserve better of mankind and do more essential service to his country than the whole race of politicians put together." We are forty years away from those worthies, J.S. Mill and James Fitzjames Stephen, and the perspective has shifted a little. We do not now regard J. S. Mill's as the last word on economics, perhaps not even the best that could be yielded by the old premises. The classical school laid the foundations and other men have builded on them, buildings that would sometimes have surprised them very much. How far do they seem to have built to the music of the three watchwords?

The answer will be different according as we understand by Economics an *analysis* or a *policy*. It might be thought that economic analysis has

done best when it has tried to be deaf to such music. The analysis of Marx is hardly deaf to it or Marx would have been more critical in his acceptance of certain doctrines of Ricardo. If a man shows an interested motive for his conclusions, you cannot have whole-hearted confidence in his reasonings; in fact you will have an interested motive for doubting them. The analysis of value, the terminal workman ("terminal Bill" as the Cambridge students call him), final utility in general, exchange of present for future goods, would seem to have nothing to do with what ought to be, but simply with what is. This is true; but the watchwords are of service to us in reminding us that we are every day dealing with distinctions that may possibly shift. It matters a great deal even for victorious analysis whether the human agents on the economic field are free and in what degree they are so, how many and how great restrictions have hampered their economic action and how few and how small. It matters also whether the *groups* of men are groups of units equally hampered or not equally. It matters finally whether they are deliberate in combination or not, and in what closeness of combination, interfering perhaps with freedom while it increases power. This is true even of theoretical economics, which can never be so abstractly theoretical as not to include in its theory the differences of typical groups actually found in industrial society. We are, after all, analysing indus-

trial society as we find it, not as we might conceive it to be; the motives we detach in the first instance in our abstract theory are actually present, though not in detachment. The analysis of "collective bargaining," and of the kind of bargains resulting from monopolies founded on "nature" and monopolies created by such associations as Trusts or such proceedings as "cornering," may perhaps proceed more carefully if the three watchwords are kept in mind, kept in mind however, as categories, not employed as categorical imperatives.

Economic *policy*, on the other hand, proceeds by them largely, even without our knowledge. On the American continent including Canada, economic policy goes on its way somewhat fitfully with occasional interruptions from within, not many from without. In the old world there is a perpetual interruption from without, in the panic fear of war and the real or supposed need of preparations for defence. This involves a taxation of which America has no experience as yet. The taxation if not haphazard must try to be economically directed. It will then be directed by principles not altogether alien to those three watchwords; we should interfere as little as may be with the liberty and equality of our citizens and disturb as little as may be their sense of political union and unity. The canons of taxation must not be considered at this point. What is to be considered now is rather more general; we must not by taxes cause political oppression and disturb-

ance of the political balance, though we must try to put the burden on the strongest back. The watchword of fraternity may perhaps specially remind us that legislation affects groups as well as individuals, and in certain cases the legislator ought to do what he can to organize the groups. In any case the sense of political unity must be reinforced.

Economic fraternity, a cosmopolitan union of industries, is an idea peculiarly modern. It would apply specially to the international character of certain great trades, and an increasing number of them. All foreign trade may seem to make for fraternity; but some foreign trades have already become international. The money market is quite as much international as national. On the whole economic interests tend to make all trades so, although protectionism puts obstacles in the way. More than the money market is now international. The trade in grain and in the precious metals and even all minerals has become so, or at least far more so than in the days of Mill, to say nothing of Ricardo and Adam Smith. It is a sort of fraternity, and implies a liberty and equality of its own. As love laughs at locksmiths, so has the trading interest overleaped barriers. The entire disappearance of protection will probably be caused by the sense of fraternity or desire for universal peace, rather than the peace be introduced by the free trade. This is another instance of what was mentioned before, the adoption of the

greater change bringing with it the adoption of the less.

Without fraternity in the form of organization of smaller groups than nations, it will be difficult to preserve what was long the most precious feature of the economic world in English-speaking America,—the independent labourer. There is some sacrifice of individual self-reliance in the older countries. In the new, the access to fertile land and homesteads may keep up the individual self-reliance for sometime yet. It means a stronger sense of liberty and equality, perhaps a little less of the fraternity; yet, for full use of modern appliances even by the farmer, a conscious union with his fellow citizens and with the State that is over them and him must be present too. What is most earnestly to be desired for both of you, both Canada and the United States, if it is not too late for the latter, is that the independent worker should remain the typical figure in the Nation. With due care and pains on the part of both of you there need not be any proletariate at all. Without the due care and pains that proletariate will come. In a proletariate there is little liberty and little true fraternity; there is something like an equality of suffering and degradation. If the watchwords would keep us mindful of this great duty, it would be well to hear their music every day, even in our study.

Lecture II

"GOVERNMENT IS FOUNDED ON OPINION"

It has appeared that even the watchwords of agitators may sometimes serve the economist pathologically in good stead. He may use them, as reminders to himself that his bow needs to be bent the opposite way; he may repeat the watchword that suggests that way. No one watchword can guide us in all cases, unless it is a uselessly broad truism like "duty before pleasure," which admits of almost any interpretation we like to put upon it.

There are maxims of another kind that are of no private interpretation and make no appeal to the emotions. They are the more useful on that account. Such are the sayings of authors half forgotten, or (which is not the same thing) whose *works* are half forgotten. One of these sayings is that of David Hume that "Government is founded on Opinion." "Nothing (he says) is more wonderful than the ease with which the many are governed by the few, and, as force is always on the side of the governed, the governors have nothing to support them but opinion, even under a despotism." We need not confine ourselves to

Hume's analysis of this opinion (it is to him an opinion of self interest, an opinion of rightfulness, right to power and right to property). The general position is enough. People say all Government depends on Force, but this Force will be found to depend on Opinion, on the Mind of the Governed. In this sense all government is democratic.

This is Political Philosophy, not Political Economy; but the dictum will be found to have some meaning in regard to the economical system. The economical system of any people (and the system of the civilized peoples now, regarded as one) is founded not frankly on physical force but in great part on the assent or consent of the governed. To use an expression of commercial law there are implied warranties; and the economic opinion on which the economic system is founded is the total of the implied warranties. You remember the struggle of John S. Mill to reach a definition of Political Economy. He at last defines it as "the science which traces the laws of such of the phenomena of society as arise from the *combined operations of mankind* for the production of wealth in so far as those phenomena are not modified by the pursuit of any other object." This means that the distinctive character of the subject involves a social element. Not only some but all of its categories are in a sense social. So too an economic system implies a society of some kind; and a society, as such, is not held together by brass collars but by spiritual bonds going beyond con-

tracts written or verbal. A group of convicts is not a society; and the intellectual element is essential. There is nothing good or bad in social union but thinking makes it so.

Some of the bonds are evident and familiar. It is, or ought to be, a commonplace that without *honesty* there is no sound economy. There must be mutual trust to hold even a band of robbers together. Without adhesion to the general will there is no cohesion of the economic system; *with* it, even a bad economic system may last a provokingly long time. The two extremes may be (*a*) absolute trust without book, record, or witness;—there is still a store of the Hudson's Bay Company north of Winnipeg where the Indians are said to help themselves, leaving the right furs in exchange, neither deceiving nor deceived; —and (*b*) absolute distrust as of Ishmael, in the state of barbarism described by Hobbes in the phrase *bellum omnium contra omnes*. Though Hobbes makes this state of things the starting point of human politics, it is really harder to find than the other, its opposite.

Though a few cynics say that seeing is believing, and all men are liars and would all be thieves if they dared, we all every day trust each other beyond limits of recovery at law. A neighbour who pushes his abstract rights to the full is a bad neighbour, and is happily always in a minority. Credit in the wide sense of the trust of one trader in another extends far beyond the lending of money under secur-

ity. There is a simple trust of native primitive men (like those Indians) which disappears with civilization, but there is also a trust first created and upheld by civilization. Civilization among other things means this very discipline. "Do to others as you would that they should do unto you" is a working maxim even in the economic region. "Honesty is the best policy" stands in close relation to it. In this sense, as has been already hinted, it may be true that "whate'er is best administered is best;" a nation of honest men might succeed, might prosper industrially, under a relatively inferior economic system.

The "opinion" on which Hume said government was founded has been already spoken of as the assent or consent of the governed. Like other synonyms these two words are sometimes used indifferently; but taken strictly *as*sent is a passive adhesion, *con*sent an active, involving conscious will. Now in the economic system, in analogy with the body politic, there is a body of customs unwritten and yet generally obeyed; and there is a body of customs to which the nation has given its consent deliberately by turning them into laws backed expressly by public force. Both are forms of the opinion on which government is founded. We may look at both separately and then consider whether there is anything beyond both, and whether this thing beyond is opinion or not opinion.

There is a passage in Adam Smith's Lectures that may serve as a starting point for this part

of the discussion. He says (somewhat too broadly) "Whenever commerce is introduced into a country probity and punctuality always accompany it. These virtues in a rude and barbarous country are almost unknown. Of all the nations in Europe the Dutch, the most commercial, are the most faithful to their word. The English are more so than the Scotch but much inferior to the Dutch and in remote parts of this country they are far less so than in the commercial parts of it. This is not at all to be imputed to national character, as some pretend. There is no natural reason why an Englishman or a Scotchman should not be as punctual in performing agreements as a Dutchman." He explains it by "self interest," which is common to all men. "A dealer is afraid of losing his character and is scrupulous in observing every engagement. When a person makes perhaps twenty contracts in a day he cannot gain so much by endeavouring to impose on his neighbours as the very appearance of a cheat would make him lose. When people seldom deal with one another, we find that they are somewhat disposed to cheat because they can gain more by a smart trick than they can lose by the injury which it does their character." As Prof. Cannan points out, Sir William Temple's *Observations upon the United Provinces* had described the Dutch in the same terms and had drawn the same conclusion.

This is Temple's conclusion: "Trade depends as much upon common honesty as war does upon

discipline." Temple adds "As trade cannot live without mutual trust among private men so it cannot grow or thrive to any great degree without a confidence both of public and private safety and consequently a trust in the Government from an opinion of its strength, wisdom, and justice." It might be thought that the sentence which I quoted from Hume was really borrowed from Temple; but the difference appears in Temple's essay *On the Origin and Nature of Government:* "Power arising from strength is always in those that are governed who are many, but authority arising from opinion is in those that govern who are few." This is just the distinction which Hume went beyond or explained away. Government may be founded on the opinion of those who singly are weak but collectively are strong, tho' they do not know it.

We may paraphrase Temple's saying and pronounce that, as an army depends upon habits of discipline, a commercial society depends upon habits of trust. To us in a fully developed commercial society this means habits of credit. Either word, trust or credit brings us into the region of probabilities as distinguished from demonstration. It involves that something is coming which has not yet come and which has the usual chapter of accidents against it but no more than the usual. It is faith as opposed to sight.

Now in the world we are surrounded with probabilities and "probability is the guide of life."

Probability in the life of the man of business has credit as one of its chief forms. His own credit is the probability that he will be able to meet his obligations; his neighbour's that his neighbour will meet his. The art of life has made progress; and one sign of it is that the array of probabilities have become known in all their degrees of nearness and farness, human enterprise and human honesty being as much reckoned among them as natural resources and the likelihood of overcoming material difficulties. It is one possible description of the 'speculator' that he is willing to run unusual risks of both kinds, human and physical, for the chance of unusual gain. His is a form of trust that is barely if at all warranted by probabilities. The ordinary man is one who trusts to probabilities no more or less than his fellows.

Confining ourselves to the human element, we may consider what the extent of trust usually is in a commercial society. Adam Smith speaks as if it were only considerable among those who had frequent dealings with each other. Merchants, we are told, are more honest to merchants than to the public. The principle is a wider one. It would seem that all society is divided into groups, and within the groups, between members of the groups, the trust is greater than between those not so banded together.

As a general rule, men trust their own families or relatives, or members of the same club, more than those that are without; they may in certain

cases trust those that are of the same town or of the same country or even of the same race. This seems due not to frequency of dealings but to real or supposed knowledge of character; we form a presumption of trustworthiness in regard to those whom we know, and the presumption is less (or vanishes) in regard to strangers and foreigners. Adam Smith's idea is of course perfectly correct for small commercial groups; members of the Stock Exchange trust to pieces of paper, sometimes thrown from the windows down into the street, of the most informal character, in transactions involving large sums of money. But the principle is the same as for the Hudson's Bay Indians, and the feeling is the same: that any one on either side who is false to his bargain is a public enemy.

Besides a presumption of common honesty, commercial credit involves a presumption of success or failure in regard to those trusted; and this depends on knowledge of capacity and of circumstances as well as character. The probability that a man will meet his obligations is not an affair of his integrity alone. We must have local knowledge to judge how far he is likely to succeed. Yet, if transactions are widespread, we need to depend on the integrity of those who have the local knowledge to give us a faithful account of the matter. The farther away we go from the simple exchange between man and man, the harder it becomes to proceed by 'common honesty' alone. Human frailties that are negligible in small quantities at

close distance become appreciable when transactions are indirect and the two ends of the chain become farther and farther removed. The need for something more definite and tangible than customs of trade becomes felt, and customs become laws, for the protection of the distant extremities.

There are no doubt some economic principles that do not need assent or consent still less the statute book to enforce them. There is the principle that the cheaper article will drive out the dearer. There is Gresham's law of the coinage; the bad pieces, if put on the same footing as the good, will drive the good out of circulation, the bad being the cheaper tool of trade. This is a consequence of the very idea of economy, and that idea is no creation of law. Then there is the so-called Malthusian principle that population tends to increase *pari passu* with the means of living. This is no creation of law, but is most evident in the most lawless and barbarous nations. Such principles are, as it were, prior to customs, and do not become 'laws'. They are really *limits* of legislation. If legislation does not keep them in mind, laws will be passed that are inoperative, to the confusion of the legislators. Laws may be inoperative also when they do not regard sufficiently the limitations of the average man due to his imperfect civilization. We say in such cases that the people were not ripe for such a law. We do not simply say that the law went beyond pub-

lic opinion, for it may concern a matter about which there is no public opinion possible, say a public library or post-office among savages or municipal government among those that have never known any representative government at all. They are not hostile to it; they do not take sides about it; they simply do not understand what it is. To take a less extreme case, many of us believe the ideal industrial system both for manufacture and agriculture to be a form of coöperation and co-partnership. But there is probably no nation however small where coöperation could be established by law without the discovery that the sentiments, theory, and practice of the average man made him unfit to understand such a system, still less to work under it with as comparatively little friction as under the competitive régime of the present day. Our friends who would establish a coöperative commonwealth by a political revolution need to remember that government is founded on opinion in this sense also.

Laws growing out of customs are of course most likely to hold their ground. The dollar was made by law the currency when custom had made it so *de facto*, on the American Continent. The Irish Land Laws grew out of Ulster Tenant Right which was custom first and law afterwards; no doubt the land laws have since then developed into a system of full ownership of the occupier to which there was no antecedent custom. The long leases of the Scotch farmer which (according

to Adam Smith) so benefited Scotch agriculture seem to have grown out of a custom. The French peasant properties existed before the Revolution and before the Code which encouraged subdivision.

From some of those instances it appears that, besides growing out of custom, law grows beyond custom. This happens; but modern legislation, especially of an economical character, is passed largely to prevent arbitrary infraction of a general custom by individual 'bad neighbours.' We need besides, to distinguish the laws of free self-governing nations and the laws of those less free. The less free, under mere 'virtual' representation, may be content to obey the laws though not fully their own. Government, where the governed do not consciously share in it, may well be said to be founded on a stupid opinion, and it may be pedantic to call it democratic. Such modern nations as have representative government are impatient of laws that are not their own; and, if their existing laws represent customs that are ceasing to prevail, it is a matter of time for the laws to be abrogated in order that modern customs may be represented by modern legislation.

Except in the lowest stages of civilization, it would seem that more initiative is left to the people and their rulers than is implied in a well known theory, sometimes called the "Materialistic view of history." According to Marx and Professor Loria the economic system is the maker of the political,

and men can do little with their system of production and distribution except live under it. It is hard to believe this true even of early times. Conquest depended on generalship as well as on the sinews of war. Economic causes count for more now than they ever did, but even now we see them thwarted, controlled, and counteracted by the political and other non-economic forces of civilization. There were long ago more customs and laws of an anti-economic character than we have now; but there are some still. And the deliberate will of the people counts for much more. How merely economic causes and motives could account for Factory Acts, is hard to see. If the answer is that in 'the long run' Factory Acts benefit a people even economically, this may be granted; but the foresight implied here is very much beyond the passive receiving of the influence of economic causes. If we are to include a political philosophy among economic causes, the materialistic view of history implies a great deal of human will and judgment, and would hardly be materialistic at all. Such a will and judgment have been exercised more or less through all the ages; and they are not likely to prevail less in our own day. The economic system may be modified by laws, for the better by good laws, for the worse by bad. Britain owed a great deal to Acts providing for Joint Stock Companies and for Industrial and Benefit Societies. Canada owes a great deal to a sound system of Banks by law established, in keeping

no doubt with the customs of the Scotch settlers but going beyond them.

There is no need to multiply examples. The economic system is doubtless modified chiefly from within itself, but it can be modified a little from without. We do not simply stand still and see it go. Herbert Spencer, with all his philosophical anarchism, desires the State to enforce contracts and keep their conditions just. If voluntary association which he extols can do so much else, it might have been expected to be equal to that duty also. But two maxims drawn from Henry Maine become an answer to Spencer as soon as they are comprehended: "Society developes from the family to the tribe and from the tribe to the State." "Society developes from *status* to contract." The functions of the State seem as rational and as necessary to civilization as the functions of tribe and family. The more civilized a people, the greater is their tendency to translate indefinite custom into definite law. The State is as truly founded on Opinion as is Society, and a people finds in its State what it can find nowhere else. In a modern State the strong majority protects the weak individual against the strong individuals. In this sense it is true that the State so far from making laws for the strongest makes them for the weakest. Justice is or ought to be rather the 'interest of the weak' than of the strong.

What bearing has this on economics? The State is certainly not a mere economic body. A com-

munity of bargain drivers would not *vi terminorum* imply sheltering of the weak; yet in civilized countries we are all agreed about this duty, differing only in our views of the best way of doing it. The State is or ought to be something higher than the economic system of a country. The opinion on which the economic system depends is not identical with the opinion on which the State is founded. It is a system within a system. We may agree with the historical theorists that the body economic is in a sense part and parcel of a nation's whole life; but it is within everyone's experience that such spheres of human activity are also in a real sense a world by themselves. A man is said to "do things in business which he would never do in private life." In politics the disregard of restraints is still more evident and our admiration of the great machine, the State, is often equalled by our surprise at the littleness of the men who control it. The same may sometimes be said of the economic world; a man may be honest in business who is not a model of truthfulness in private life. Men, also, are accused (as if it were a fault) of introducing the methods of business into literature, politics, or religion. It is true that no one of these spheres of human activity really make our whole world; we need the union of them. But there has been an exaggeration of their solidarity, as conceived to exist in the national life of our own time. Precisely in our own times the theory of solidarity has been started and precisely in our own

times has the solidarity been less marked. Most of the spheres of human activity have international as well as national attachments, and the opinion on which they rest is that of a wider circle than a nation.

The foundation still remains opinion, but it is of men in general or at least of civilized men. True, the economic system implies in any case more than 'opinion' or any assent or consent to certain rules whether customs or laws; it implies also an agreement in action of men, founded on their common human nature or reason. The idea of Economy itself implies a rational creature, preferring, say, a less cost to a greater, or division of labour to individual self sufficiency, or money to barter, etc.,—to whatever nation he belongs. Men have been controlled by a reason of which they have only in these latter days tried to give a full account. All nations have more or less practised economy; but Political Economy is a late study.

We can say that comparing the economic system with the political we find a certain analogy, something in the economic body corresponding to the 'opinion' on which the political body depends; we can say that the analogous element is the honesty and trust that make so many more economies possible than would be possible without them;—also that, as other customs become laws of the State, economic customs may do so, with advantage, or sometimes (owing to human falli-

bility) with disadvantage. There is a residual element which is not quite analogous.

We may now go on to ask whether the more familiar "public opinion" that does so much good, or according to the Essay on Liberty so much harm, has any such weight in the economic system. Does it contain the promise or potency of all progress, or is it an opposing force, hindering the progress which might come from the originality of individuals?

The question may be also put positively: If honesty or faith in one another secures order in the industrial world, what secures progress there?

If the progress is to be in material wealth, the answer is commercial enterprise, with originality and invention. We might have a well-ordered community with every quiet virtue, and with liberty, equality, and fraternity, but with no movement forward, for better production and distribution. What then produces the forward movements? What makes a "dynamic" state of society, to use Professor Patten's language?

Adam Smith was content to assume as an acknowledged fact the "constant desire of *every man* to better his own condition." The desire does not exist in uncivilized man or even always in the civilized. The native of Bengal who represents a very old civilization does not have this desire. The root of "statics" and the root of "dynamics" do not lie so near each other. Men might live as industriously and parsimoniously as ants, and, like

them, be no better equipped in the later generations than in the earlier. The mere fact that with modern science men have more certainties and more or at least more rational probabilities would not neccessarily convert a stationary State into a progressive one. We may stand and consider the old paths, "*vias antiquas*," without doing what Bacon told us and making them a fresh starting point. The Chinese long stood still in this manner.

We need not attempt to follow the course of a progress resulting from what people call purely economic motives, for (the miser's case excepted) it may be doubted if there is such a thing. It may be doubted if there is enterprise or invention aimed at wealth for wealth's sake apart from the glory and especially the power that wealth gives, whether it be the power over others generally or the power to serve children and friends or favourite "causes," all in fact that is our larger self. In this respect the economic body is bound up with the extra-economic. Our whole economic system is a means, not an end in itself. But, for all that, given that wealth is not (rationally) desired for its own sake, the machinery of its getting may still be studied by itself; and we are not freed from the question—whence comes enterprise.

Enterprise may be distinguished from invention. Invention is a form of enterprise, but the latter suggests something more. Invention might be used to keep up the comforts of a State that was little more than stationary. They are however

very near. On the whole it is true now at least that invention prompts enterprise, and of course may be itself a form of it.

The competition which is the feature of modern business prompts both. Profit, as distinguished from interest, is not now secured so much by 'exploitation' of the workers as by real economy or real economies, in all but the marginal case. Competition by prompting enterprise increases economy. No doubt there is still some "exploitation;" and there are profits due to the unearned possession of natural advantages, of the nature of rent. But there is, above all, the "rent of ability," tho' ability is often without its rent because misplaced. Part of the economy truly described as political would consist in putting men of ability in their right place. They very often go there as it is; but it often happens otherwise; and, wherever otherwise, there is waste or defective economy. Progress *pro tanto* is slackened. Perhaps '*a superior genius*,' as Ricardo said, or (as others might say) an Economist King would so arrange the economic functions of men that every one had his best place. But it would need a divine wisdom in our rulers such as we have not yet seen.

It would not perhaps be so hard to hire the ability and tax the unearned increment of it, the unearned difference between a clever man and a fool, the cleverness being the gift of nature like the fertility of a soil. But, so far from taxing cleverness, as was proposed by the wiseacre to the finance

minister in Voltaire's *Homme aux quarante écus*, we should rather give it a bounty. How then can we so reward the clever men as to ensure their services? Earth cannot refuse its services to us; but men are less tractable, and they need to be coaxed in a very different way. The best way, in view of the whole facts, seems to be the old way of education; educate the clever men and let them reward themselves by worldly gains. But let us not give them a double advantage, that of nature and that of legal privileges; nature has made it only too true that to him that hath shall be given. We need not magnify the influence of this ordinance of nature.

Educate public opinion, some will say, and then the deterrent effects of it on originality, the effects described by the Essay on Liberty, will be less.

It is improbable that any education will do this; the really original man will always have to struggle against the crowd. It is the penalty he pays for his superiority, in industry as elsewhere. The present world indeed is so imperfect that in order to succeed in it at all the original man is often forced to depend on his second best faculty rather than his best. It is a good saying of Mill's that every society can train up the next generation to be at least as good as itself or a little better. The phrase "a little better" may point us to a phenomenon on which Mill himself laid too little stress, the tendency of ordinary folk to be influenced by strong personalities, the tendency to hero

worship. The day of masters is over, but there will always be leaders. One feature of a modern democratic society is its extreme respect for any one only a little taller intellectually than his fellows. In matters economical, the leaders are the men of enterprise and invention. It is hardly true now that inventions spread slowly. Invention is not economically very valuable till enterprise makes it so. The mere embodiment of inventions in a saleable object does not bring them into economic dynamics. A microscope or spectroscope is not an economic power because expensive. Inventions must be or become of direct influence on production or distribution, and the economist can take no account of them till they are so. But it is a feature of our own age that the applications of invention are quickly seen and hard to hide. The keenness of competition leads the enterprising men of business to look on all sides for aids from invention. The applications of electricity for example have been very rapid in the countries where competition is keenest. As long as men remain capable of inventions, the rate of profits will not go down to zero. There is no sign of flagging at present. There are few businesses where the old conservative methods are still enough to maintain profit. Efficiency has been increased even where the profitableness is a subordinate consideration, in public works. Coining of money, which might have remained stationary in its methods as being sheltered from competition, has shared in the progress round it; and our

Mints have been introducing oil furnaces, electric motors, automatic weighing machines, electrolytic refining, each and all of which improvements would have seemed a wonder to our forefathers. The producers sheltered from competition have learned lessons from producers not so sheltered. If all were sheltered, there would be none from whom to learn. There would certainly be fewer inventions, or applications of invention to the arts.

Besides inventions that may, if applied, facilitate production, or are even directly made (like the power loom or cotton-gin or sewing machine) to that very end, there are inventions that play an even more obvious part in modifying the economic system—the inventions that facilitate exchanges. Such are the Exchequer bills (of Montague), Treasury bills (of Bagehot), money itself, banks and clearing houses. Finally there are inventions in distribution, companies and coöperative societies being examples.

We feel the distinction between the possibly economical and the necessarily economical in comparing inventions of production with inventions of exchange, more particularly. Money as the general tool of trade has more close connection with the economical system than a steam engine. The waggon way on the earth is more of a mechanical invention and less necessarily an economical one than the waggon way through the air of which Adam Smith speaks. All the modern forms of credit described in such a book as Hartley Withers'

Meaning of Money are almost directly economical. They are also (be it observed) almost directly international. They depend for their chief and most living applications on the Great Intercourse of nations. Of course the others (inventions of production and inventions of distribution) are possibly so too, and those of production at least easily become so. It is not the' opinion' of a nation or even of many nations that puts them in force but their economy, as discerned by those actually engaged in business, discerned far more easily than the wisdom of a political expedient is discerned by the people or the statesmen.

What part is played by 'public opinion,' in distinction from the 'opinion' of Hume's dictum?

As the form of government is based on opinion in the sense of the general will, the governing from day to day depends on public opinion, a sum of particular wills, and not the whole but a majority of them.

'Public opinion' is a familiar idea, as ill defined as most of our familiar ideas like 'matters of common knowledge,' 'what every schoolboy knows.' It is not latent; yet it is not embodied in customs and laws. It is supposed to utter itself and it has many voices, of which the newspaper is the loudest. It is not always the loudest voice that speaks for the largest number. Where else is it expressed? Sometimes at the polls, in the churches, at public meetings, in subscription lists, in the sale of books. It is mainly national

simplest form. But when free trade is alleged to be a development of division of labor there may be a bias in our attitude, hostile or favourable, towards the allegation; and, when profits are described as simply the robbery of the workman, as unpaid labor, or confiscated product of labor, the analysis (it may be suspected) has been tinged with the passion of the social reformer. The pages of an economic writing may have sometimes too close a likeness to a speech at a public meeting. We have this advantage that our first principles are far more a subject of general agreement and popular acceptance than say the first principles of any general Social Philosophy or even of Education. So much is this so that people complain of the "truisms" and "commonplaces" filling economic text books. They are there as the necessary foundations; all the rest is built on them; but people do not accept the building with the same readiness, and our task is largely to show how such first principles lead to our further conclusions. In politics there is less of such deduction possible. The general basis of a system of representative government is doubtless the same for all nations capable of it; but a deductive politics is of far narrower scope than a deductive economics. This is an advantage of which public opinion cannot entirely deprive us.

We need all the advantages we can get, because, even where our theory springs from a strict analysis of practice, we may find apparently the

whole nation incredulous of it as contradicting practice. People still insist in believing the weather influenced by the phases of the moon, though scientific men are agreed on the contrary. Where economic theory seems to point one way and 'public opinion' decides for an economic policy pointing the contrary way, are we to say with Edmund Burke that we 'do not know the method of drawing up an indictment against a whole people?' If we obeyed the splendid appeal, we should be giving up our effort to make economics scientific. The dictum is, in this region if not elsewhere, of very doubtful value. Collective wisdom is a reality, but it does not mean infallibility. If a country parish may err, so may a county, and if a county so may a country. The larger the numbers believing in any view the more probability there may be that there is a good reason to account for the holding of the view. But the popular statement of a widely popular view is as likely to be inexact as the view itself is likely to contain some truth. It will be right in substance and almost certainly wrong in form. The formulas in which it is stated are almost certainly such as are adapted to the easy comprehension of the less intelligent citizens; the statement is in terms of the "marginal intellect." The economist is bound to state the whole truth so far as he can; and that can seldom be done in one proposition or two but only in at least three, the two premises and the conclusion of a syllogism, or the same

multiplied many times. It is not our ambition to end our economic inquiries soon and with an epigram, but to end them with the discovery of the object of our search, whether that be soon or late. It is to be feared that public opinion puts a premium on premature discoveries by its want of sympathy with long investigations, and its fondness for watchwords and short formulas. But all economists should work for more than the remuneration of the marginal intellect. Political Economy is indeed, like Politics, founded on opinion; but it is not founded or dependent on 'public opinion.'

The "materialistic" view of history, turning economics into a whole Political Philosophy, might be expected to find the *vox Dei* in every public opinion, or else it too must recognize that an education of it is possible, *i.e.*, that it is in some degree modifiable by the will of man. The holders of this view seem to differ little from others in their attitude to public opinion. They are content to go one step farther than Adam Smith. As distinguished from Quesnay and other Physiocrats, Adam Smith believed that the most important economic principles were actually realized in spite of political hindrances. He recognized also that the political system had a life of its own and was not simply as it were a free translation from economics. He even spoke sometimes as if the two systems, economic and political, ran best separately. Yet he could not even foresee the

amount of successful independence secured in his own country some fifty years after his death. There was not to his mind any omnipotence in economic tendencies beyond the few elementary ones. Their benefit was extended to "the public" without any thought of it on the part of the public; it did not proceed from collective wisdom; and on the contrary 'collective wisdom' often lessened the benefit by interference. He wrote his book to persuade collective wisdom to stand aside.

It stands aside in many cases now where it interfered then; but especially for the best economic policy in distribution we should want it to be more than neutral now. If the economist should not be guided by public opinion, he should try to guide it, recognizing that error is possible which he must help to remove. Belief in the progress of humanity and 'evolution of society' must not involve the giving up of individual effort to improve society; and one of the best fields for such effort is the enlightenment of public opinion concerning the limits, method, and results of economic study. It is not difficult to find 'maxims' and 'watch-words' in use which show the darkness now prevailing in this regard. We are told for example that we need not study any more because our conclusions hold in theory but not in practice. The phrase thus used only shows, like many others, the need of more light; but there is perhaps none in which public opinion is more nearly unanimous,—against us.

Lecture III

"IT MAY BE SO IN THEORY"

It has already been remarked that public opinion is suspicious of economic theory as contradicting practice. In the early years of the 18th century in England public opinion was shocked by the "Fable of the Bees" in which Bernard Mandeville professed to show that private vices were public benefits. Public opinion was shocked; and yet Mandeville did no more than array in an appearance of logic whole groups of fallacies that were popular then and are popular now. They included the fallacies attacked so wittily by Bastiat in his *Sophismes Economiques*, especially under the heading "Things that are seen and things that are not seen." How many have said in their hearts after reading Bastiat's chapters on the subject: "All this is very well in theory, but in practice I find every day that to break windows is good for trade and the invention of machines is bad for it?" Their name is legion.

This is the naïve scepticism of the man in the street; but there is a scepticism of men in the study which we cannot put aside by recommending a course of Bastiat. There are certain theorists

who tell us that economic theories founded on abstractions cannot be true theories, and that the true must be drawn from practice in the sense of copying or reflecting it as it is. There is a certain analogy here to Pragmatism in Philosophy, now so confidently taught in many quarters. To Pragmatism that is the true theory which serves us in practice and verifies the practice. Its motto is 'Prove by practice' or even in more homely terms 'The proof of the pudding is in the eating of it;'—all our postulates are to be working postulates. This is likely to be a popular philosophy. But there are limits even to the popular disbelief in abstractions, for common logic above all things is founded on professedly general principles, and yet every one in 'practice' trusts to it. In Arithmetic, and broadly all Mathematics, there is a testing of practice by principles and not *vice versâ*. Art is allowed a liberty of selection even in Impressionism. It is mainly when the abstraction relates to action that the doubt comes up. Yet an Ethics that simply in an uncritical way reflected popular conduct would hardly yield us a conception of Duty; and the chief part of any Religion is the controlling idea of a highest object of worship or regard, which is in every case ideal.

The rule "prove by practice" or "verify by experience" needs careful interpretation. Like other maxims, it turns out to be false in some cases true in others, and therefore likely to be no better guide in Economics than "Liberty, Equality,

Fraternity." We might quite fairly reply to it by Hesiod's old proverb "The half is more than the whole" or the modern adage 'The onlooker sees more of the game than the players.'

The notion at the bottom of such an exclamation as "All very well in theory" is of a piece with the distinction of *men* of practice and men of theory, and with the view that the practical men approaching (though seldom or never reaching) "rule of thumb" are superior to the men of theory who (it is said) form preconceived views of a case before they deal with it. The last are like jurymen who have made up their minds before they enter the box to hear the evidence. We should certainly reject such jurymen, without a first or second admonition. But they are hardly in question. They would not be "onlookers" but would have their eyes away in the clouds. Are the *onlookers* to have no general principles? If Kepler had held none, he would not have discovered the orbit of the planets. He had a preconception, though he was a genuine onlooker. Aristotle is sometimes opposed to Plato as Realist to Idealist; but, though Aristotle is in close touch with practice, he never moves a step without general principles. The deductive element enters into all progressive science; it is only wanting in Natural History, and this is a register of facts without theory. Deduction is specially necessary where (as in Astronomy and largely in Political Philosophy and all its branches) experiment is impossible.

In Political Economy we are making an endeavour after a Science. Is our endeavour fruitless? Must we be content with a register of facts?

The right answer seems to be that the motives and actions of men in regard to economy in society undoubtedly yield general principles; they present certain broad uniformities that have a greater persistence and regularity than exist in any other group of social facts. This is proved by practice in the sense of being inferred from the known character of the great masses of civilized men. The onlooker sees these uniformities; to be an economist, he takes permission to look at them (in the first place) separately as if they were the only causes at work. This detachment of them is his offence in the eyes of the 'practical' men. It is the method described as essential to economic investigation by J. S. Mill, Senior, Cairnes, Bagehot, and Keynes, the last summing up the whole case sanely and wisely. It is the method dictated (to use a figure) by the facts of human nature. A mere record of economic facts for generation after generation, century after century, is a natural history of them, leaving us with the barren result: What is, is. What was, was. As Bagehot says, the 'Whole Case method' presenting all facts means a bewildering accumulation. We shall have no light till we are allowed to detach and select.

Now detachment and selection mean abstraction. There may be unwise selection and unwise treatment of what is selected. But the right to

select must be conceded; and it involves the right to abstract and, on abstraction, generalize. The facts do not detach themselves, and he who detaches and selects is no longer the merely practical man but has begun to be a man of science. It is true that the theory which adds to practice is a theory that practice makes, or else we live in cloudland. The proper contrast however is not between theory and no theory but between wrong and right theory. The thesis of "historical realists" is itself a theory.

Ricardo is often taken as the typical abstract theorist among economists. He allows the accusation himself; he 'really believes' he is too theoretical; but, he adds, his friend Malthus is "too practical" looking at temporary effects while Ricardo looked at permanent ones. Ricardo's aim was "to elucidate principles" and therefore he "imagined strong cases." In the popular conception, too, Malthus was the practical man. Remember out of what antecedents those two men were made. Ricardo had passed a lifetime in business before he began to theorize, that is to reflect, about it, and Malthus who began his economic writing with (by his own admission) too abstract a theory had had no further acquaintance with business than the fellow of a college and curate of a country parish could acquire from somewhat slender opportunities in that regard. Prof. Hollander once described a theory of wages as "metaphysical" because it relied on extended appli-

cations of the theory of final utility. In that sense Ricardo was metaphysical; he pushed abstract theories of value, cost, and currency, to a point where his more academical friend showed him he was out of touch with actual experience. His remedy, however, was not to give up theory but to make a theory that embraced more of the facts, to pull down his barns and build greater, and be more concrete.

On certain *strata* of economic theory, both of those economists agreed. The first principles on which Adam Smith proceeds, duly followed by his successors, are abstracted from human nature and are part of experience. The 'constant uninterrupted desire of every man' (in civilized society) to better his own condition is a fact of general observation; it is only too abstract if there is a denial of conflicting motives and an assertion of the omnipotence of this one. Wide influence and high probability are quite a good enough foundation for economics. This principle of commercial ambition seems wider and more uniform in its sweep than any other *single* principle in civilized societies, say military, social, parliamentary ambition. Provision for a family and desire of marriage have almost similar sweep, along similar ground, and are accordingly taken up into economic science alongside of commercial ambition. The two together cover a great part of human life. They are without rivals in extent of influence. They bear the test of the "law of averages" and

form the basis of predictions, of high probability. No other motives are (in a better sense than the old) "ruling motives" of whole societies.

If the practical man is one who refuses all generalizations even of this character, he is one who refuses all illumination but that of the moment; he is intellectually what the Cyrenaic philosopher was ethically, the one living by the light of the moment as the other on the feeling of the moment. If it is answered: "No one does this" then the practical man is granted to be only a kind of theoretical man. We all know that it is precisely those immersed in business that are liable to form the most extravagant theories of business as a whole, and not only more extravagant but less concrete than those of the modern economist, in the true sense of concrete.

It is not desirable to settle the dispute by the familiar compromise and say both are right, the practical man and the man of theory. The truth does not always lie in a compromise. The practical man thinks he is right because in the end we need to make our theories concrete if we can. But he does not readily see that the endeavour after science is an endeavour after theories, general principles, on the strength of which posterity may be expected to make more progress than we have done. If the theories are true, they are in the facts, and thereby (if you like) the man of theory and the man of practice are proved to be at one. But the contention that we should form no theo-

ries is not to be conceded under any pretence. The practical man himself abandons it in his domestic economy; he has practical rules, and all rules (even of thumb) have a certain generality. He is constantly telling us that "he makes it a rule" to do this or that. In so far as his "rule" is not arbitrary, it is founded on abstractions, drawn from life, on the assumption that the course of life will be influenced throughout by much the same causes as hitherto, acting with much the same energy, and that other men are very much like himself and what he is likely to do they are likely to do. As a rule he is sufficiently right for his limited purposes. Most men succeed in making a living and keeping their house together and providing for the future.

What this practical man does for himself when he makes his rules, the economist tries to do with a wider purpose, for the great body of "practical men" including his own critics. He may have greater difficulties; but his problem does not seem irrational.

Sometimes the antipathy to general theories in economics rests on the notion that when you reduce the present system to general principles you are giving to it a sort of approval and vindication. You are certainly showing it to be rational enough to hold itself together. But it seems clearly to appear that the sufferings and drawbacks of large masses of individuals (to put the strongest case) are independent of the principles themselves and

are part of the polity and policy of nations rather than of their economy; and in vindicating the principles you are not vindicating the violence.

We can point in our own time to economists who agree in accepting the name and who belong to the most widely differing political classes, Conservatives, Democrats, Socialists, Anarchists. This agreement shows that the method of general principles common to them all is in intention a really scientific one, not a contrivance of the special pleader. It is sometimes said that the sceptic makes the best historian. It may be doubted if the sceptic ever finds his way to the depths of human nature. But what is meant by the dictum is sound. It is true for economics as well as history. In economics, too, the best student abstracts from his creed of social reform when he is working out his economic problems; he must study them without passion or prejudice, *sine ira et studio*, let us hope with better success than the immortal author of that phrase.

The late Henry Sidgwick showed us in his own person that to be a good economist a man did well to be more than an economist. This is not inconsistent with belief in the virtue of unbiassed abstraction, for we only *begin* with the abstraction, and after we have formulated our general principles we have to see whether, or how far, they are affected in ordinary life by quite other principles, whether for example commercial ambition is crossed by other motives, extra-economic or anti-

economic. Some of the most elementary (say of value or the currency) are hardly modified at all. Many others are gravely modified. If we have no familiarity with the non-economic principles, we cannot judge fairly of the effect they are likely to produce. Some of us are skilful in dealing with the economic principles, and less skilful in tracking out their modifications in concrete human life.

In any case our task is a twofold task; and to make it only onefold is either to have the concrete unillumined by principles or the principles un-fructified by application. 'Right in theory, wrong in practice' would at the worst, mean that the principles are destroyed when applied and were better not made; at best it would mean that they look exceedingly well on paper and it were a pity to spoil them by application. If, however, they are right (or correct) as theories, they represent an actual element in the facts. They point to one ascertained body of true causes at work in human societies. It may be a harder problem to find the others. We need not despair of the microcosm of human society, in this regard, as we do not despair of the greater world. What we reduce to principles is a very small part of the whole in both cases, but not any smaller in the human *microcosm* than in the material *macrocosm*, and at least as much within our ken.

What is the relation of the various other influences and elements in human society to the economical element? They all touch it even if they

do not (as in the Materialistic view of history) all spring from it. Are they as much a condition of it as it is of them?

It was Comte's view that the elements of Society were so commingled that they could not be studied separately. Therefore he rejected Political Economy and Psychology as separate studies. But, if you refuse the separate study, you cannot see the wood for the trees. We may admit the closeness of the social bonds, and admit that in dealing with them we find the categories not only of Physics ('dynamics' and 'statics') but even of Biology not quite adequate. The organization of bees and ants is more easily reduced to rule than the organization of human society. The kind of development shown by human history, the kind of progress there shown, cannot be paralleled in any natural history of animals. Yet human thought and will are not simply *varium et mutabile semper;* the resulting actions show uniformities not planned out but not irrational, tendencies not predictable *a priori* but discoverable and recognizable when the facts are scrutinized. It is surely well for us to subject the most uniform of the uniformities to a closer scrutiny than the rest and be thankful we have any such to scrutinize. Economic causes may not be the key of all human progress; but they may help us to find the key. We may well try, then, to reduce them to order first.

It was said in relation to Ricardo, and Malthus,

that abstract principles might be too abstract to be in touch with practical life and might need to be made more concrete. Interpret the 'practical man's' protest in this sense, and it is not deserving of complete rejection. To make this concession does not destroy the contrast between ungeneralized and generalized practice, but it lessens the distance between the disputants and represents the best we can offer in the way of an *eirenicon*. To make a principle more practical is sometimes (paradoxically) to make it wider,—to make it embrace more cases in concrete human life. When Ricardo spoke of all value as depending ing on cost he explained that he was knowingly neglecting cases where it had nothing to do with cost. His friend's generalization, limitation of supply, embraced all the cases and was more "practical." Ricardo's principle embraced fewer cases, even if they were the more complicated ones, and the more characteristic of the practical life *he* knew best. This was perhaps his infirmity rather than the tendency to be 'too abstract.' His theory of value applied to articles freely produced; and Marx has applied it so with much less regard than Ricardo for any other cases of value. But the other cases remain with us. There are things such as gold, to say nothing of land itself, where the cost does not play the controlling part in the extension or limitation of supply; and there are no signs of the disappearance of such cases from our civilization; they will

stand alongside the others while the moon endureth. We must at least therefore begin with the wider notion and it will be the more widely true for being more "abstract." What then is the more concrete? We may answer that, of two general principles the more abstract has more individuals under it but fewer of their qualities; the more concrete has the converse. It is as in the logical distinction of generic and specific. To say of things that they "are" is to use the widest abstraction and specify the fewest qualities. The more qualities are taken up into a generalization, the more concrete it is. But, if a generalization embraces the greatest number of qualities and the fewest individuals, its concreteness will not save it from being useless. In regard to human beings, especially, we desire to know first of all the qualities in which they agree rather than differ,—including those in which they agree to differ, the foundation of exchanges.

If the propounder of the wider generalization is to be the "more abstract thinker," it appears that Malthus is so, and not Ricardo, in their respective theories of value. It appears also that popular usage, not condemning generality, visits with opprobrium the abstraction necessary to the making of it.

Observe what Ricardo says about himself, as already quoted. He means to elucidate principles and therefore he imagines strong cases. We infer that the contrast between him and his friend

was not in their acceptance or rejection of general principles but in their habits of mind. Malthus was careful and troubled about the applications, and (according to his friend) was in too great haste to see how much or little the principles were modified by the other facts of life and business. It seems as if Ricardo was content to leave to others the question of modification. Though he was a public man, he was more at home in the study than in public meetings and committees. He fought against this very virtuous failing; he spoke in Parliament, sat on Committees, subscribed to Robert Owen's schemes and made himself useful in promoting Savings Banks. This effort gives us greater respect for his character. But except in his view of machinery it led to little change in his theorizing and it was probably better so. There are few who are capable of such theorizing, and many who can 'serve tables.' For the building up of a complete Political Economy we need both kinds of men. They do their work best when they divide the labour, taking care to learn results from each other.

In the days of Ricardo, and Malthus there was a great deal less of this coöperation than there is now, largely because there were fewer "hod-men" then for the economist to use, systematic statistics being a phenomenon of later origin. The result was that the economist was always more or less closely joined to his abstractions. James Mill is counted the most abstract of all, and

MacCulloch next unto him, both of them disciples of Ricardo. But even Malthus has the characteristic. His name is associated not only with the theory of Population but with that of Rent and (indirectly) of Wages. In what degree were those unduly abstract?

The first as you know was the statement of a tendency of human nature limited by conditions of physical nature and also by conditions of human nature not apart from human will. In this respect it was one of the most practical of economic theories; its conditions were realized tho' in widely different degrees, among barbarous peoples and civilized alike. It was not a generalization confined, in Bagehot's fashion, to modern commercial peoples; indeed many tell us it has no place with them. In this respect it is a wider generalization than Adam Smith's of commercial ambition. As fully stated, checks and all, it not only comprehends more of the units but also more of their qualities. It is in this sense more concrete. It need not be held that the statement as Malthus gave it was quite exhaustive. The notion of voluntary restraint, for example, must take the place of moral restraint; and there are cases where physical and physiological causes are at work that escape his formula. But, broadly speaking, it has been a successful theory.

The fortunes of the theory of Rent have been different. The theory itself was not at first of the same comprehensive character. It was sug-

gested to others besides Malthus and Ricardo by the conditions of farming in Scotland and England at the end of the 18th and beginning of the 19th century; and the formula dealt with the land last taken into cultivation, at a time when the variations of corn prices made lands go out of cultivation and come back into it in a startling way that impressed all observers. The land on the margin that was just barely profitable was taken as the measure of the profitableness of all those above; what they could yield as rent was the difference between their profitableness and the profitableness of this lowest. Professor Hollander shows us how the theorem was gradually cleared of its first narrowness. In intensive cultivation the last dose of capital, profitably applied at all, was the measure of the profitableness of the other doses. It is of course a question not merely of prices but of fertilities, and not merely of fertilities and agricultural purposes, but of net advantages for all purposes. The formula holds even where there is no private ownership, no landlord standing over a tenant. But at first it appeared as a consequence of the growth of population pushing forward the extensive cultivation of inferior lands or the intensive cultivation, at greater cost, of the superior lands. It was prejudiced and encumbered by a quite unnecessary appearance of history and by superfluous positive prediction. In the main (as we often hear in our time, from nationalizers of the land) it is a theory that tells against land-

lords, whereas the theory of the wages fund told in favour of the employers. The economic importance of the theory lies partly in its essential identity with the theory of final utility. Rent is measured by final fertility; and in the more general theory, too, we measure from a lowest item upwards. Prof. Hollander reminds us that we may reach the agricultural margin of rent without reaching the margin of profitableness depending on other uses than agriculture; we may not have reached the really lowest item from which to measure the others. This consideration simply shifts the application of the differential theory from agricultural uses to profitable uses in general. The theory becomes in this way broader and really more effectively 'practical;' it covers more of the actual cases of ordinary experience. The limits of its usefulness are the limits of the usefulness of the theory of final utility in general. The marginal item or the 'final' utility or lowest use is often regarded as being what it is not. It is not a cause but a measure; and 'determining' means only defining. Until we go on to the cause, we have a sense of incompleteness, as if we had only half of the case before us.

While in this way we can regard the theory of Rent as only an instance of a broader principle, it is also true that the other instances of the broader principle may be described as analogous to Rent, wherever the positing of the lowest item results in a graduated series of items rising

above it. Logically or pedagogically it may be useful to speak of a rent of ability or a consumer's rent. By long usage, however, rent has become associated with facts given by nature and unalterable by human will, and we should be careful to relegate as few phenomena as possible to this inexorable fate. It would be "wrong in practice" to do otherwise. As it is, the practical man might find advantage in keeping this economic notion of rent in his mind when dealing with many aspects even of modern city life. It is essentially as true now as in the days of the Classical Economists; and many seem to find it easier to grasp than the wider notion of final utility, a perfectly true abstraction but more abstract and therefore more troublesome to the man in the street.

The fortunes of the theory of the Wages Fund have been very different. It is the crowning instance of an untrue abstraction; but it was not from being an abstraction that it was untrue. It was "wrong in practice" just because it was not "very well in theory"; and it has probably done more injury to the reputation of economic theory than any other generalization ever received into economic textbooks and then expunged from them.

The theory of Rent began by a deduction from the Malthusian principle; the theory of the Wages Fund makes appeal to that principle also. It runs as follows: Average wages depend on the proportion between the total numbers of the labouring population and the total capital devoted to the

employment of labour. This is a fairer statement than the abbreviation which runs so: Wages depend on the ratio of population to capital,—for it is not *all* the population that is taken, nor *all* the capital. But, while every one would doubt the short statement, most of us would only believe the long one as we believe an arithmetical truism. Divide the total wages paid to the wages-earners by the number of the wages-earners, and you get a figure that contains no more than you knew implicitly already. There is a further interpretation however; and the interpretation is part of the theorem; the total of the capital that pays wages is a *fund* that at any given time could not be more or less than the figure found. It is a sum not modifiable by the parties concerned; and therefore wages can only be raised by the reduction of the population or the increase of the capital. That part of the total capital devoted to wages remains the same proportion of the whole; if it is to be increased the whole must be increased first. Human will does not enter, appearances notwithstanding. It *has* entered, in the increase or decrease of population and increase or decrease of capital, but it *does* not enter in the determination of wages at any given time; that comes not from the will of man, but from the ratio between two quantities, and the ratio is a fixed datum.

Put in this way the theory is to us unbelievable, and we can hardly conceive how it lived forty years. The rigidity, the fixed character of the

fund, is the chief stumbling block. But, so far as we can ever be sure of a bias, we may see here the bias of a desire to be very practical indeed. Without the rigidity the theory was of no decisive use in the dispute between labour and capital. We must not say of no use at all to any body. The re-statement of Cairnes is useful to an economist. Since Mill gave up the theory, after stating it in more absolute terms than its authors, economists have been gathering up the fragments that remain, that nothing be lost. Even Professor Taussig and Professor Böhm Bawerk may be seen gleaning in that field. But the old unrevised theory of a Wages Fund was one of the rare instances where the practical men had a good case against the theorists. So far as the working classes found articulate voice at that date, they protested: "If Political Economy is against us, so much the worse for Political Economy." The employing class were the articulate practical men, and they naturally thought that a Daniel had come to judgment, that the economists had found a really practical principle at last, and at last were talking "sense, absolute sense."

The principle was indeed too hastily practical. The major as distinguished from the minor economists had been content even in those forty years with a more general theory of the relation of wages to capital. They believed in a dependence but within limits hard to define. Wages is a particularly concrete problem. A theory of it could

scarcely be formulated to advantage till labour had shown all that was in it by becoming organized and beginning collective bargaining. But the Wages Fund theory was brought forward in labour's most chaotic days. Even now, when theories of wages have succeeded each other, tried and found wanting, in a not unfruitful tentative manner, we are finding it better to clear the ground by theories of interest and profits than to take this hardest of problems first.

We have not dwelt on the theory of a Wages Fund in order to discuss the merits of it but in order to illustrate the relation of theory and practice. The opposition to such a theory on the ground of a variance between theory and practice is not the same as an objection to it on the ground of excessive abstractness. The remedy was not to make it more concrete; it was too concrete; as a theory, it tried to cover more details than the theorist was competent at that time to cover with any theory. The application to concrete facts may show the defects in an abstract theory, but the right theory is not necessarily itself more concrete, only more in accordance or harmony with the concrete facts when it is placed among them. In this case it was made to include concrete facts that were not as stated. The proper opposition is thus between *a theory* which as such is more or less abstract and the successful or unsuccessful *application* of such a theory to the concrete facts of life; it is not properly an opposition between an

abstract theory and a concrete one. A right theory fits the concrete facts better than a wrong one, whether it is itself concrete or not. If it came out of them or was suggested by them, it ought to be replaceable among them with the least possible injury of either party.

As an engine of public debate (always a delicate position for an economic theory) the theory of a Wages Fund was misused because like some other economic generalizations it involved the hypothesis of too nice an equilibrium of the forces resulting from commercial ambition and the struggle for existence. To say positively that such a nice balance must always exist and exists now, is to neglect the hypothetical character of economic theories; they assert tendencies, and their holders are (or ought to be) aware of the plurality of tendencies. Economic tendencies are not omnipotent though they are likely on the whole to be stronger than any others; but assuming that MacCulloch and Fawcett were satisfied with the correctness of their formula they were not justified in more than a warning to the workmen,—say to this effect: "You are taking action which will be more or less directly in the face of certain economic tendencies, and your course is not likely to be smooth." The men might have answered: "We accept your warning, but we take the risk." In adopting such an attitude both the disputants would have been within their rights.

When the economist is led to turn his principles nto practical maxims of conduct, he is tempted

into that dogmatism which is the usual characteristic of the utterers of practical maxims.

Take the question of Free Trade, one of the most troublesome in practice, as the question of wages is in theory. The economist can only warn the practical men, politicians or otherwise, that Protection tends to penury, that there are certain economic tendencies at work which will fight against the enrichment of a country under Protection. The practical men may answer that there are many other principles at work in the world besides the economic and that the sacrifice of wealth is worth making. The most orthodox economists cannot silence the practical men who admit the sacrifice and choose it rather. Whether the sacrifice is really worth making is a matter of opinion, and at that point the discussion ceases to be academical. On the other hand if the practical man denies the existence of the sacrifice he must give economic reasons or he can have no quarter. Of the two it is perhaps more often the practical man that magnifies his office; but that too is a matter of opinion.

Some practical men, not the most thoughtless by any means, will tell us that it is all a matter of common sense and our differences from them are chiefly about words. No doubt it is all a matter of common sense; all science is common sense, made a little more exact than it is on the street. But, in regard to verbal disputes, appearances are deceitful. John Mill remarks somewhere that dis-

putes about words are usually found to be about *things*. If the reference of the aforesaid practical men is to our disputes about definitions, the practical men will discover that such disputes come at the end of a long debate on more vital matters. Definitions are oftener perfected as the result of a true theory than as a condition of it; and the occasional assistance given towards the clearness of a theory by a clear definition does not make the definition equivalent to the theory or superior to it. Were it not so, we might have rules for the attainment of right theories. But to light upon right theories is as much the reward of high talent in economics as anywhere else. The question of method in a sense settles itself for each serious student. It is possible to give rules for testing the generalization once made, but not so easy (if at all possible) to give rules for the finding of it in the first instance. How you get it will in the end depend on the manner of man you are. It may come into your mind as an inspiration. It is an inspiration more likely to occur to a practised than to an unpractised mind; but it is not given to every economist, any more than to every practical man, to put two and two together.

The conclusion of the whole matter may be so described. The gibe of the practical man "It is all very well in theory" may be taken up in earnest as an exhortation to the theorist to test his theory and apply it, and trace the modifications of it in the complications of the world we live in. This

was done both by Malthus and by Darwin. The strength of both men was shown in the application as well as in the theory; but what gives them their high place, in successful speculation of the scientific sort, was not simply their mastery of details; it was the light they threw on the details by their master principle itself. In regard to the necessity of theory there can be no compromise whatever.

LECTURE IV

"FIGURES CAN PROVE ANYTHING"

The discussions of economists are not merely verbal. Still, since language is as helpful to thought as the body to the mind, we have to use it; and we are as liable as other people to be led in triumph by our own figures of speech. In this sense as well as the statistical, "figures can prove anything." Metaphors are so convenient for purposes of exposition that we may now and again forget that a metaphor, conveying to ourselves no profounder analogy than the more modest simile, usually counts for more with our hearers; its figurativeness does not stand confessed on the face of it.

We need not make a vow to avoid all metaphors. We could not keep such a vow. Language is full of them; human speech is a mass of mixed metaphors. Examine any sentence philologically and this appears. Moreover language proceeds from the lower to the higher (the spirit was the breath, a corporation is from *corpus*, a material body), it passes from the well known to the dimly known, from the easy to the hard. To interpret the hard by the easy does not mean to reduce it to the

easy, or it would not be worth the doing. We do not want to explain away but to express our difficulties. Hence we are engaged in a perpetual struggle with the imperfections of language, from the nature of the case never to be removed if sometimes to be overcome.

How has Political Economy fared in this struggle? Every discussion exemplifies it, the present included. The invention in economics of technical terms depends for its success on a general agreement to use them, and they must first be defined in terms of ordinary speech presenting the ordinary difficulties. The technical terms of other studies stand temptingly near. Scientific metaphors in particular have exerted no little influence on economic doctrine.

It was not surprising that in the beginning of a new science all possible aids should be borrowed from the sciences already existing; and yet, as few of these in the 18th century related to man, their terms were not likely to be adequate. In the Physiocratic conception of it, Political Economy was almost a branch of agriculture, or at least "modelled on the physical sciences" concerned therewith. The idea was that man in society should conform to the physical conditions necessary to secure the building up of the ideally best society, *l'Ordre Naturel*, just as in navigation he needs to employ such laws of nature as are a condition of sound navigation. The "natural order" of society is a conception founded, like natural

right, on the "law of nature," which is rather a metaphysical than a physical conception. It is abstract and *a priori* if any conception in social philosophy ever was such; and the conception clung affectionately to political philosophy till the beginning of the 19th century. The presence of it in the economics of Adam Smith, Burke, etc., has been often remarked. "Natural liberty," for example, implies some such conception. But the "natural laws" of the Physiocrats may be said to have stolen the advantage of two metaphors in one, for the "nature" was a philosophical figure and the term "laws" owed part of its impressiveness to the suggested analogy of the physical sciences. It perhaps suggested most typically the law of gravitation as more obvious and irresistible than any other. The Physiocrats liked to convey the notion that their economic principles were also irresistible. Also, however, is not likewise. "Your father, my lord, was a judge; you are a judge also, but not likewise." It may be doubted if we should call economic principles laws, (a) not laws of nature in the metaphysical sense, for the truth in that notion of nature is better expressed otherwise, (b) not scientific laws, for that suggests physical science and (c) not laws *simpliciter* for that might suggest a prescription of the legislature or the statute book. Where the binding force is spiritual, it cannot safely be compared to the attraction of particles or to the path of a projectile through space, nor can the resulting

social order be properly compared with the contrivances of mechanical art. Of course we need not blame our economic authors for using any and every scientific metaphor. There is no harm in speaking with Malthus of a ruling motive as "the mainspring of the great machine" or with Casaux of the "mechanism of societies." Adam Smith says that a philosophical system is an imaginary machine that endeavours in fancy to connect movements already existing in reality. He speaks of the Machine of the Universe. Such metaphors are like the Apocryphal writings as distinguished from the Canon; they may be used for example or instruction, but we are not to apply them to establish any doctrine.

They have been freely used from the first. One of the oldest of economic metaphors is that of the balance of trade. It should have the benefit of the doubt; it may be simply the term of book-keeping, which is a phase of economic life itself. But "conflicting forces" could hardly be other than a physical metaphor. "Equilibrium" seems harmless, but it suggests "brought to rest," while "*tending* to equilibrium," as was long ago remarked, brings up the notion of storm instead of rest, a group of physical elements in conflict. A social equilibrium is a rare occurrence if it means absolute rest, and tendency towards it is a storm of much more confused elements, higher and lower, than the purely physical. "Dynamical" and "statical" economics would come un-

der the ban; and the expression "disturbing elements" in political economy must also be recognized as no more than a metaphor. Finally, when it is said that even the favourite, old fashioned, harmless, financial phrase "fund" has been converted into a physical metaphor by being brought into a new contrast, "not a fund, but a flow," it may occur to some of us that we are nearing a *reductio ad absurdum*. If we excluded such phrases we should have hardly any language left to us to think with.

But this is not the conclusion of the whole matter. The predominance of a certain class of metaphors may show a real bias of thought, whereas there are parts of the economic subject where a predominance of physical or even mathematical metaphors may be quite suitable. Few of us would think of excluding human society from the "law of Probabilities" on the field of Statistics.

The much-reviled phrase of Malthus, geometrical and arithmetical ratio, was not so much inapplicable as empirically inexact. He was dealing with the animal side of human nature, which is undoubtedly a real part of it, and the question of the tendency to increase in men and in food could be considered apart by biology with the aid of the physical sciences. Quesnay and Adam Smith had both drawn similes from physiology. Quesnay was a doctor. You will find the analogy of the human body to the body economic remarked by Hegel and Herbert Spencer. It was a very old

parallel—we may find it in the fable of the belly and the members—and seems in all ages to have been a comfort to politicians and political philosophers. "You want to know how this scheme works? Well, it works in the same way as the act of breathing in the body through the lungs" and so on. Similes from the doctor's knowledge of the body are less ambitious than metaphors from Biology, the separate study of all animal life. It has claims on us, beyond the physical sciences, for man's animal properties are a step nearer to his distinctively human nature than his material properties or chemical composition. There is all the greater risk that part of the truth may be mistaken for the whole in biological metaphor, for biology is *nearer* the whole than physical science.

Both the biological study of man, followed by Malthus and Darwin, and the statistical study of him based on the Theory of Probabilities, fail to give us the whole man, or even as much of him as we need in Political Economy. The man of statistics is an item whose humanity does not matter for the purpose of the statistical inquiry; we might call him live stock without affecting the results. But the witty saying is no more than a sally: "Civilization is that progress which can be verified by statistics, as education is that knowledge which can be tested by examinations." Statistical study is the handmaid of all social sciences but not itself identical with any one of them. It deals with

such bodies of social facts as are expressible not merely in numbers but in large numbers. It investigates the truth that there is in averages; though its perfection of method is of very recent date, the facts on which it is founded have been observed for two centuries. Long before that time, Aristotle noticed that there is greater wisdom in a large assembly than in the separate members of it; but he did not notice that there is a greater constancy or uniformity in the proceedings of large groups than of small or of individuals. This has been well illustrated in the brilliant book by Herbert Spencer on *The Study of Sociology*. He shows for example, that statute law may produce no predictable effect on an individual but a very distinct one on the general mass of men. This is true too of such economic principles as that the greater gain will be preferred to the less. But it also applies to cases where deliberate will does not enter. The uniformity of a death rate and even a rate of accident has been long observed. Mr. Bowley duly notes how Biology in the hands of Karl Pearson and others has been verifying itself by statistics, especially in regard to the theory of evolution and inheritance. But neither Biology nor Political Economy is identical with Statistics; nor are the first two identical with each other. Biology in the largest sense includes all that pertains to the scientific study of living things, including physiology, zoölogy, morphology. Since ever the two, Biology and Political Economy, have been

recognized, they have mutually influenced each other. The most brilliant instance is the genesis of the Darwinian theory out of the Malthusian; but there have been many services of one to the other in less broad generalizations. The growth, structure, and functions of an economic body, more especially in the division of labour there, appear analogically in all living things. Physiology is said by Spencer to have learned the idea of division of labour from Economics as (according to the same writer) Biology owes the idea of development to Sociology. In dealing with things economic and things biological we find that the properties of the units determine the character of the groups; societies of men have characteristics broadly depending on the characteristics of the individual members. As a group of dogs would bear distinctively canine characteristics, a group of men would bear human. They would show, for example, a social sympathy and power to act together, as well as general cleverness and power to outwit other animals. A group of Russians, too, or American-Indians, would bear Russian or American-Indian characteristics, evident on close study. All this without disparagement of the principle that uniformities of the mass are calculable while they are not rules in detail for the individual. This only means that the *root* of the uniformity is in each individual and that it usually grows but not invariably. Usual growth is enough for a generalization, whether biological or economic.

The parallel is still mainly true when the evolution from the simpler to the more complex organization is concerned. The greater specialization of the more developed society means among other things economic specialization; it means more perfectly developed trading-organization, function and structure reacting on one another.

But the human groups differ from one another so much more than groups of animals from groups of like animals, that the lessons we draw from groups of animals soon fail us when we deal with man, even if we do not go so far as to say with Spencer that each human society is a species by itself. Biology has so far influenced us that we all talk of the State as an Organism; and we are tempted to consider the Struggle for Existence and Survival of the Fittest as the unavoidable way of procuring the development of the higher organization. These formulæ however are not the last word of science on the development of man. If they were so, political organization must be defeating itself, for it consciously does much in our time to put in place of the struggle for existence the aspiration after well-being for ourselves and others. We do not seek to attain a Super-Man, but we do not, even in our economic system, take stock of man as simply animal any more than as simply tool.

If there was a Sociology full formed, it would help us much more to express ourselves by Sociological metaphors than by Biological, for

Sociology goes beyond Economics whereas Biology lags behind it. But Sociology is even more of a mere endeavour after science than Economics, and in any case human language uses by preference the lower to express the higher, rather than the converse.

There is another aspect of the same subject worth regarding in this contest. Biology takes a given life as determined by environment and heredity. Some biologists will even refuse to allow that human life itself is ever otherwise determined. In physical and physiological stuff and capabilities it may be so; the environment and the germ-plasm may give us all the essence of a man. If this is the whole story however, then the historical economists may be right in saying that every political economy is a political economy of a certain epoch, entirely relative and confined to that epoch, environment being always the predominant partner. But, if we yield here, we are allowing biological metaphors to run away with our logic. Too much would be proved. If no knowledge can overcome environment, there could be no science extending beyond the moment, and therefore no real science at all. The environment may be taken so widely as to include the environed intellect that surveys it; but in this case the word has been strained till it has burst through its biological meaning altogether.

The drift of this reasoning is that, while all the sciences, especially those touching subjects nearest

society, may be used in illustration of economic reasoning and as an aid to the understanding of economic principles, we must never forget that they cannot yield us more than metaphors. There is danger lest we use the metaphor for the principle itself. It is not long ago since we used to hear of society as an organism, frankly in the biological sense, and of its evolution as simply biological, a case simply of the evolution of animal life, man being obviously an animal.

There is more reserve now. Organism is now seen to have been a metaphor. Perhaps the term organism was never applied to a group at all except in the case of men, though the metaphor might have suited bees and ants in their united action. In their case one feature appears that is supposed to justify the metaphor in the human instance; when the one member suffers, the others suffer with it. This is true too of the mare and the foal, the cow and the calf. The growth of this close fellow-ship and fellow-feeling is due in those cases, also, not to a deliberate aim or will of the members of the group but to a "natural process" not willed by them. But even in regard to bees and ants the expression would be of little help; the whole body of ants or bees does not feel in its members as an individual ant or bee in its limbs. Nor does the human society, still less the human State. The State is the supreme public authority with the public force behind it. The State is in one sense the highest organization of all; but it has less of the

organic *feeling* than the society, of which it is the expression. There is a State where there is a common government, though a community is not a State, nor a government a State; it is the unity of a nation expressed in a government. There is little help to us from calling the State an organism in the biological sense, since a nation is not an animal or definable in terms of zoölogy; and it is deliberate and not instinctive in committing power to its government. Society has more of the instinctive element; it is not made but grows; but just for that reason, in its most instinctive condition, it is called *unorganized*. The separate wills and intellects of human beings, however frozen by custom, are enough to forbid analogy with limbs absorbed in a body. If it be answered that there are living creatures with limbs that can be detached and made to form separate bodies, it will surely be allowed that those are the last creatures likely to serve as a good illustration of the close union of society. The peculiarity is that the close union and detachment are consistent in the human beings: they exist at one and the same time.

They are consistent because the bond is a spiritual bond; it is a bond of intellect and sympathy. If ants and bees have this too, we need not be offended. All we can say then is that in their case too there is no special help given by the comparison of the union of them in their groups with the union of the limbs with the body; in the one case he members are discrete, in the other continuous.

It is true on the contrary that organism is an expression that need not be confined to biology; and in using "organism" and "organic" we are not necessarily relying on a supposed analogy of the kind just rejected. Philosophers have been inclined to say that society gives a new meaning to those words. An *organon* is an instrument, a means to an end; and in human society, the nearer it is to perfection, the whole and the parts, the body and the members are the more truly means and end to each other. The union thus formed is a higher type of organic union than the biological. As the economist has to deal with human societies (were they only of "economic men" and therefore to some of our friends hardly human) he will do well to follow the philosophers, and when he speaks of the social organism think of something of considerably higher type than even the human body.

Has Philosophy itself any other help to give us in Economics, and may it also prove occasionally a "disturbing element?"

We have already seen that mistaken ideas of a social philosophy (on natural right, more especially) have had their influence. A mature social philosophy could hardly fail to help us, but at present as was said Political Economy is the more mature of the two. There are two departments of philosophy, viz., Psychology and Ethics, in which in our own time economists have trespassed with peculiar alacrity; and we may also say there has been intru-

sion of these two in particular into Political Economy. The intrusion is hard to prevent. Some economists have climbed over (or down) into their Economics from their Moral Philosophy, and now-a-days every economist seems to find it necessary to begin with a discussion of Subjective Value, ("Value in use."), which is very near Psychology.

To take Ethics first, it may be quite harmless to introduce ethical principles so long as we our selves know what we are doing and give fair warning to others. Otherwise we may give the impression that our economic argument is not strong enough to stand alone. When Adam Smith declared certain kinds of interference (*e.g.*, laws of apprenticeship, of settlement, and even of the fiscally Protective sort) to be violations of justice and of the rights of men to unfettered disposal of themselves and the fruits of their labor, he was importing ethics, and it might quite well have been answered that the question of economy ought to be considered by itself. Possibly every injustice is bad economy for a nation; it is so for the commonwealth of nations; it may or may not be for small groups or for individuals. Slavery is now regarded as a kind of robbery and is, economically speaking, out of court. It was not always so regarded, and the economic truth about it was not only worth stating but is really a powerful force against it in the minds of statesmen. Adam Smith must have felt that Political Economy had no meaning for slaves, since these were allowed little or no scope

for the "constant and uninterrupted desire to better their own condition," but that did not prevent him from showing the economic defects of slavery as an institution. Something similar is done by economists now in the case of "Sweating." The appeal, also to the economy of the Nation as against that of smaller groups or individuals is a sound economic appeal, and imports no ethics into the matter. Economy *in men* is not so much one of many considerations, in the economic argument pushed in this direction, as one of the fundamental assumptions on which political economy is founded, and quite paramount. A society which did not economize its men would be self-destructive; it would be a group that did not preserve its own units. This claim of preëminence for human life is no doubt a point of contact with Ethics; but the claim of Economics is not that the human life in question be of any specific moral quality; it is simply that the men be there, and that those who are there shall be really men, agreeing widely and differing infinitely.

It is the wide agreement and infinite difference that have led to the existence of exchanges and values and other economic phenomena. Here it is that we are most liable to the intrusion of Psychology. Hedonism or Utilitarianism, a theory of Ethics resting on a Psychological analysis of feeling, desire and will, have often been made the foundation of Economics. Bentham's Utilitarianism appears in Ricardian economics, and Jevons em-

ployed Utilitarian psychology in his theory of consumption. Utilitarianism, thus entering, prejudiced large bodies of thoughtful men against economics without really helping economics itself. We must face prejudice if we have the truth on our side; but, if it is not, even to ourselves, certainly truth but only a useful assumption, our proceeding is not heroic but Quixotic. Now Don Quixote was not in his perfect mind.

The attempt of modern economists to make the Consumption of wealth their starting point requires that they shall either use the most general language about human wants and feelings and motives, in order to suit any and every psychology, or else that they shall have a psychology of their own and face the usual philosophical difficulties. To most economists it will be enough to assume that men have wants and that they deliberately satisfy them by labour applied directly or indirectly to external goods. There is a reckoning also of comfort sacrificed against comfort gained, and there is a mental process carrying us toward the decision whether this or that sacrifice is "worth while" or not. All such matters have a psychological aspect. But whether pleasure and pain be our absolute masters or not may be left an unsettled question by the economist if he chooses so to leave it. The psychology of wants and of toil goes farther than the economic treatment of them. Enough ground is cleared without it for the making of a theory of Subjective Value.

Some of our friends doubt if it is worth while to elaborate such a theory as this last at all, in view of the fact that our study is of social not of domestic or personal economy. But to know the group we must know the common and dominant characteristics of the units that form the group, and the idea of subjective value seems to be one of these characteristics. Even Adam Smith, dealing with the Wealth of *Nations*, starts really from the units: "the constant desire of *every man* to better his own condition." And it throws light on exchange, to recognize how the infinite differences and preferences of individuals enable both exchangers to gain because the final utilities differ for them of goods materially the same.

There might be more doubt as to the degree of importance of this branch of economics relatively to others. There is a fitness perhaps in putting the theory of Consumption first in our text books because consumption on the whole is first in nature; the intention to consume is certainly first. But in our teaching it might come later as it has done (significantly) in the history of economics. When the student plunges into that wood, he seems often to find difficulty in emerging from it, so tempting are the psychological problems that strew his path there. It is perhaps well to place him there late and then let him stay as long or short as he chooses.

We need not as economists find more than a proximate beginning, any more than physical

science needs to go back to metaphysics, or to the first creation of the material world; and even in physics the light now dawning on scientific men in regard to the origins of things is hardly of the sort to give much illumination to neophytes. It is better sometimes, in teaching, to take up present problems, than 'naked in the air of heaven ride.' The philosopher may be denied assumptions; it is his function to go behind them; but the economist must allow himself nearly as many as ordinary folk, in regard to first beginnings.

When we cross over from Subjective Value into Objective or rather that kind of it which concerns the economist during the largest part of his time, namely, Value in Exchange, the disturbing element is not philosophy but Law. Exchange is of possessions. Exchange is of property. Exchange is matter of contract. Property is not strictly speaking an economic category, neither is contract; but the legal categories are always with us, and there is a tendency in some economic writings to slip into an economic conclusion from legal premises. Whatever has its price is supposed to have an economic standing, and sometimes it is suggested that nothing else has it. H. D. Macleod is perhaps the greatest offender in this direction. A man does not always know his own bias. Macleod thinks his bias is towards physics and he begins by saying that economics is a physical science; but he is guided by law throughout, and includes rights of action to goods and services as distinguished from the

goods and services themselves under "wealth." Credit to him is capital. There is much more to the same purpose. Most of us would admit that Macleod goes too far; but some would say that his direction was not a wrong direction. The other "disturbing elements," they would say, are on a different plane from Law. They were theories, but law is among the facts, the hard facts, of life, no doubt partly shaped by the rest but also shaping them.

This is so. As we saw at first, law is usually a defined and rationalized custom and that is a fact of life, industrial life included. But so are religion, morals, and politics. Such facts help to make up the concrete world into which our abstract theories must be fitted. But they are not to make our theories or (if we can avoid it) help to make them, any more than theories from other studies (if we may distinguish *them* from the facts of life) are to be allowed to intrude. Call law fact or theory, it is separable from pure economics.

The materialistic view of history represented law as the result or creature of industrial conditions. Professor Stammler went so far in the contary way as to say that social economy implied and depended on LAW. In modern times and for full maturity this is nearer the truth; but, though not separated in the concrete, economics and law are separable in the abstract, and perhaps desirably separated for unprejudiced economic theory. Prof. Stammler himself would be the last to approve any

confusion of economic principles with statute laws; and yet such confusion will arise if we do not somewhat sharply distinguish law and economics.

The relation of economics to Jurisprudence or the science of the first principles of lawmaking is of course even less close than the relation of economics or even the industrial system to the actual laws of a given nation. It is no nearer us, to say the least of it, than moral philosophy.

We cannot ride over all the objections to the disturbing elements by saying: "Why! what you call disturbing elements are simply the *other* elements of the concrete life which you left out in your abstraction!"—Bacon has, grandiosely or majestically, described the *idola theatri*, figures of the stage, or theories of speculators, as disturbing science in a different way from the *idola fori*, figures of the market place, or ambiguities of human speech, and the *idola specus*, figures of the cave, the personal bias and peculiarities of the individual man, and *idola tribus*, the limitations of man's senses common to all humanity. All such figures affect us. The personal bias is perhaps worst of all, but our critics seldom fail to discover it for us, sooner or later. All the *idola* affect us. But the *idola theatri* are not so nearly a part of human life as the rest. When our economic abstractions are put back into the concrete world they are to fit into human life, but not necessarily into human theories. At least it is probably not within the power of ordinary economists so to test

an encyclopædia of theories. Human life is not our rival, but the theories may possibly be so. They are attempts like our own to explain human life in part or in whole. The old question recurs if abstraction is desirable. First is it desirable to make preliminary and temporary abstraction from the concrete industrial state of man which contains so much more than is industrial; second is it desirable to abstract altogether from the world's theories even when you are coming down into the world again from the height of your first economic abstraction? Perhaps not altogether. Theories cannot be quite disregarded; but they are objects of criticism (Utopian Commonwealths among them) rather than aids to reflection.

If we have been bred on German Philosophy we may have a "philosophic faith" that there is a logic not only in human history generally but even in the succession of human theories, and they are not misleading *idola theatri* unless we take them out of their context. All that need be said is that their context, unless they are economic theories, is not ours. If they are economic theories and their context therefore is ours, it is not for sane men to suppose that such theories survive the time of their own superseding, and continue to reckon among the facts of life. On the other hand, *verum index sui et falsi;* the true theory read with full intelligence will be found to include what was true in predecessors and contemporaries alike.

Lecture V

"IN THE LONG RUN"

Certain disturbing elements or alien influences have in time past prevented economic reasoning from being quite pure. Not even the youngest of us escapes them entirely. What *must not* be taken for granted lies along-side of what *must* be taken for granted. For example we *must not* take for granted that the economic man has every intellectual and moral virtue, but we *must* take for granted that he is a social being with common honesty, a normal man. We must study his commercial ambition and the general tendencies resulting from it, separately, not allowing other kinds of study to thrust their methods and their metaphors upon us. When we have thus formed our principles without prejudice, we must come down into the world of experience again and test for ourselves how far they are at work there.

It is always with us a question of tendencies. Economic tendencies are, we believe, more uniform than any others; and we may expect to see them persistent, not only *simpliciter* in theory with all obstacles thought cleared away but in the complexity of human society. In the modern industrial

world the primacy seems accorded to them by society itself, for almost the first time in history. Yet we do not as a matter of fact find absolute domination. Commercial ambition may be the predominant partner, but there are many partners. The few elementary general principles, of currency, of division of labour, may rule unquestioned in progressive nations. There is doubt if they can be said to do so in the unprogressive, though Marshall has made an ingenious attempt to prove it true of them. Prices and wages do not, in the East, bound up with alacrity in response to the fall in silver; they have tended upwards elsewhere even in response to the fall in gold, a harder matter to prove.

But in the industrial commonwealth of the great modern trading nations the primacy is largely confessed. For example, the economic phenomena which economists have pointed out as necessarily occurring in countries extracting the precious metals have duly occurred there, perhaps without any exception. They are uniformities that affect all equally.

It is harder to show the working of tendencies where the whole society is not affected but only certain groups. It is not easy to show that the invention of new machines will tend to increase wages. This was the tendency first supposed by Ricardo; but he changed his mind and wrote: "The same cause which may increase the net revenue of the country may at the same time render the popula-

tion redundant and deteriorate the condition of the labourer." It was this change of view that made MacCulloch doubt the infallibility of Ricardo. The more orthodox position (if we allow that any position of Ricardo's could be heretical) was that machinery tends *in the long run* to employ more labour than it has displaced; this was to be the consolation of the hand-loom weaver, thrown out of work by the factory system. It was to be a sufficient vindication of an economic principle, that, if it did not fit the facts now, it would fit them at some time in the future. But in the case of machinery there were more economic principles asserted than one. One seems quite to fit the facts: that there is a tendency under the régime of machinery towards a greatly increased production at less cost. It was a different proposition that the increased product tends to be equally shared. The economist has no warrant for saying that any economic tendency exists which by itself brings about good distribution. The sharing of property was matter of law and political institutions, in some countries religious prejudices; and the conditions so established might prevent any such consummation. It does not seem true that economic tendencies are all made beneficial by length of time any more than a man is necessarily made better by growing old. There is no saving virtue in the "long run."

But there is also no necessary fallacy in the phrase. The element of time enters into economic

tendencies unavoidably and by the very notion of "tendency" itself. Tendency is a process, not a point or a *fait accompli*. If we may use a metaphor, it is a force not a quantity.

Take another example of it. The tendency of profits to a minimum has often a positive forecast of the future based on it; it is read as a prediction. But there is a rival economic tendency alongside, namely the postponement of such an evil day (if it be one) by invention. The economic man is not always uninventive; as an average man, he occasionally invents; and his occasional inventions, whether they be of new implements or of new economies in the use of the old implements, arrest the downward movement, or tend to do so. Where there are two economic tendencies involved, we must not base a prediction on only one of them.

Is time itself then a disturbing element? It is the common element in which all experience moves; it is not disturbing unless we think with Schopenhauer that life itself is so. We are here to make the best of both of them, and to understand them so far as we can. Now, time plays a part in the simplest economic act. The very idea of economy involves it; it looks before and after. In what we call a "hand to mouth existence" there is no true economy. Adaptation of means to ends, of tools to production, involves the interval (however short) between *now* and *then*. Still more clearly is time involved in such production as involves employment of wages-earners, and

advances to them, even if the product is meant as soon as possible to repay the advances. It is involved in the later form of the distinction between fixed and circulating capital, between what wears out sooner and what wears out later.

The distinction so well brought out by some of our friends between present and future goods, as the basis of an economic theory of interest, comes in here. The distinction too between long and short periods of production, emphasized by others, is not only a distinction of time, but one peculiarly relevant to the question of the efficacy of the "long run." Marshall's exposition of the long period's supply price and the short period's supply price is classical. Here is a quotation from it bearing on the matter in hand: "When it is said that though the price of wool on a certain *day* was abnormally high, though the average price for the *year* was abnormally low, that the wages of coalminers were abnormally high in 1872 and abnormally low in 1879, that the real wages of labour were abnormally high at the end of the 14th century, and abnormally low in the middle of the 16th, every one understands that the scope of the term normal is not the same in these various cases." Marshall uses "normal" where Adam Smith uses "natural" (as in 'natural price' and wages). It describes the result of economic tendencies working unimpeded. In the passage quoted, it has three meanings according to the three periods chosen; but Marshall contents him-

self with a broad distinction of two classes, the first in which there is time for supply to adapt itself to the demand and the second where there is not time.

The important point for us at this stage is that, though Marshall's cardinal doctrine is that mutual determination is nearer economic truth than a succession of causes in time, he here conveys that economic processes have a different character according as they are long or short, slow moving or quick. Some would tell us that all distinctions of time are relative; *sub specie æternitatis* a long period and a short one are alike short, a thousand years as one day, and *vice versa*. But the economist is not a metaphysician; he works *sub specie hujus sæculi*. The distinction of times long and short is not futile. We may measure, as Marshall does in the case quoted, by the length of the ordinary processes of production; and, if you ask what latitude we are to have in reckoning ordinary processes, it may be answered that we measure by the days, years, and generations of working human life. Provisionally, we may say that there is a presumption against that economy of which the results are deferred beyond the measure of a generation. There may be a doubt of it before that. When it is said of any transaction that "time is of the essence of the bargain" we know that the limits are narrow. There is nothing which it is worse to waste than time. Yet you do not necessarily waste it by spending much of it; and, whatever

was done in the days of the making of the pyramids, much of the characteristic work of modern industry is done over long periods. Transcontinental railways and Panama Canals and Nile Barrages cannot be made in short periods; they may take what is a great fraction of an ordinary man's working life, perhaps even a generation.

Equally characteristic of modern industry is the continuous process of production and reproduction. Day by day the supplies for large cities are pouring into them; and, if the fresh production of wealth or fresh transference of it ceased for a week, we should find out how much we depend for our comfort or even our life on this continuity. This is what is reasonably meant by national income being not a fund but a flow; and it implies an economy of time within periods of production which we try to make as short as possible. The modern economic system economizes time at both ends, and it uses the long period for the sake of the short. Production is carried out in the long period in order to enable the production in the continuous short periods to be done more fruitfully. Once finished, the railway and canal and barrage secure that for us. The commercial ambition and private interest of individuals tend to make them prefer the short periods. Shortening of time is certainly of the essence of the bargain where wages are concerned, and where livelihood rather than affluence depends on the venture. Livelihood always does depend so much

on all industrial ventures that wherever the period can be shortened it is economy of human life to shorten it; and a heavy responsibility rests on statesmen who lengthen it where the obstacle is only political, as in the case of the old English Corn Laws. Where material obstacles stand in the way of a beneficial change, needing a calculable irreducible time for removal, it is economy in the long run to undertake the removal. The cost can be counted and the return anticipated with greater certainty than where the obstacles are human wills. The experiment of encouraging Infant Industries might have been safer if the presumption had been adopted that a generation is an amply long enough period to test the vitality of an industry and amply long enough for the great body of the people to be taxed for the benefit of a few. The only long periods that are really economical are those that are *necessarily* long. It is true economy to make your periods as short as possible, and only to make them long where you cannot make them short.

Some one may say that the distinction in time of long and short periods is analogous to the distinction in space and extent of great and small production and even of large and small communities. Neither of these is a futile distinction any more than the distinction in time. The measure of a large and a small business is a man's ability to overtake the whole management of it with or without assistance; it is the extent of his single powers, as the distinction in time related to the

prolongation of these powers in an ordinary lifetime. The measure of a large or a small community is even more definite. A community is too small to be reckoned "large" if its numbers are too small to yield trustworthy statistical results. Results in Holland, New Zealand or Switzerland are less valuable than in larger countries. The analogy may be especially pressed from the instance of communities; and it may be urged that an economic principle (like a statistical) must be tested over an adequate number of cases, and this may involve a time that is long, relatively to human life. In this amount of "long run" it may justify itself. It may prove itself to be a real economy, alike of men and of resources, as in the case of machinery, of which Ricardo lamented the present unhappy consequences.

It does not seem clear how Ricardo proposed to deal with the distress he deplored. Perhaps "as a gentleman" he went on, for his own part, paying the same wages as before; but he does not appeal to others to do the same. He does not propose to join with the Luddites in suppressing machines. It is of course not always impossible to arrest an economy. Religious persecution has been successful where it has been sufficiently thorough; and economic changes have been hindered with very fair success by nearly every known government in the world. The drawback is that the hindering of them injures a larger number than it helps, not only "in the long run" but in the present. On

the other side it is a fact that in the present the sufferings of the few may be more acute than the increased comforts of the many. No economic ingenuity will prove that the invention of machines has not often permanently injured individuals, in property and even in life itself.

The proper consolation seems to be that such inventions are a greater economy for the whole community than for any individuals who gain by them. The gains of private people bulked more largely in Ricardo's time. These private gains seemed the chief item to be set against the losses of the poor weavers. But it was not so. What Adam Smith calls the interest of the consumer meant really the interest of the community; and here we are introducing a consideration which takes us beyond the narrower limit of time, the single human life.

Time may be measured in at least four different ways in the economy of human beings:

1. For the individual, by his own expectation (or expectations) of life and the return to his outlay within it.

2. For the household, by the householder's grasp of the situation on its behalf and the degree of his unselfish love of his offspring or remoter kith and kin; it may mean a far range of provision.

3. For associations of men, by the interest of all jointly and severally, not only severally and not only jointly, but with a range wider than the individual life or single households. Where the

associations are not purely commercial, they approach in range the public bodies.

4. For public bodies, by an indefinite period, depending on the expectation of the life of the community. This last has a large economic element. Among the concerns described even by orthodox economists as everybody's business and nobody's business, and for that reason as *public* business, there are many economic concerns, say, currency, taxation, great enterprises requiring more capital than even associations can provide, economy of men, involving their education and provision for the general health, as well as economy of forests and other national resources.

The classical economists were too near the idea of the State as a "Police Office" to take full account of this view; and it is this view of the national economy that sometimes justifies a "long run" from a purely economic point of view. A sacrifice of private profits may be necessary unto this end of national economy. "The mischief will cure itself" may bear a true interpretation. On the other hand profitableness even at a low rate of profit is as much a condition of economy in the State as in the individual. A low rate of profitableness will yield a total in course of time; but unprofitableness continued for a century will remain unprofitable still.

There is another sense in which faith in the long run may be worthy of some acceptation. It may be simply the belief that as time goes on an

economic tendency becomes a stronger and stronger power in society, and other tendencies, other kinds of ambitions, become relatively weaker,—in fact that the course of events is fighting for the greater predominance of the economic factor in events.

This is not absolutely self evident, for the control and regulation have grown too; but it seems probable to a very great degree. It means among other things, that political power will be mainly determined by economic conditions, just as certain economists (especially the first Social Democrats) believed it to be in all periods of history. It is hard to believe it was always so,—that we might have said "Tell me your industries and I can tell you your institutions." Even modern industry subsists alongside of the most curiously different institutions. But it is perhaps becoming true now.

Fortunately the regard for the public economy and public welfare in general seems to be becoming a little stronger also. There is on the whole a tendency (not economic though not alien to economy) on the part of men in civilized countries to seek the public good. It is not very pronounced; but it is discernible. In some countries, as England and perhaps the United States, it is actually more pronounced than the tendency to provide for the future of the individual. These two countries are not the countries where men save most, but they have perhaps most public spirit. There seems really to be a clearer vision than formerly of the

fact that the life of the community is more substantial on this earth than the life of the individual. The increase of public spirit may have far reaching economic effects. They would not be merely the effects of the saving habits of the prudent man. It is beginning to be recognized that 'After me the deluge" is no motto for a civilized man, nor even 'After me and my family and kin and clan.' There seems no sufficient ground for supposing that in the many modern instances of a public spirited use of wealth the public spirit is superficial and the private vanity dominant; it is rather the vanity that is superficial.

After all those wide concessions, it may still seem that the term economic cannot quite fairly be used in such cases without explanation. When the expression "economic considerations" or "economic point of view" is used, without doubt it is the economy of commercial society and not of the State that is suggested. When we exchanged the old name political economy for economics, by general agreement, a generation ago, it was to enable us to discuss any and every kind of economy, domestic and national included. Perhaps it might be well to keep the old name for the old study in the narrower limits, in spite of the awkwardness of the adjective political. In any case it will probably be admitted that, if we used *economic* considerations without explanation for what served the State's economy though unprofitable to the private citizens, we should be using it in a figurative sense,

just as if, to take the opposite case, we were to speak of *financial* considerations for what affected the income of private citizens. Finance is associated with the State. We associate economics with the region of commercial ambition, where there is regard not to long periods of public benefit but to the main chance in short periods. The dominating tendencies are not yet very seriously if at all altered by any trading for the public good such as Adam Smith set down as hypocrisy in his day. The uniformities we study are those of trading for private advantage. Indeed we can hardly imagine yet what uniformities would be yielded by a philanthropic trade and commerce. Perhaps they may show themselves by and by.

The economy of the State is of course meant to be *patriotic*, which is a nearer approach to philanthropic than the ordinary economy of commercial competition. But it is just this economy of the State that has varied most in history, each *patria* having different needs and policies at different times. It is this that changes its complexion with changes in national character and political events, for these affect the positive laws, the "historical categories" of some of our friends.

The elementary economic principles to which reference has so often been made, can be traced through many historical periods and in the most diverse nations; and essentially they can be described as the development of division of labour and commercial ambition working together. Even

Gresham's law that the cheaper money drives the dearer out of circulation, and the often verified impossibility of preventing exportation of the precious metals under a so called unfavourable balance of trade are of this origin in the end. Such economic principles do not much depend on institutions; they tend to break down the institutions that resist them. It is of their nature too that they affect not production only but exchange, and not only exchange but consumption, so far as the principle of subjective value is allowed recognition.

We ought not therefore to allow the cry of "national" versus "commercial" economy to disturb our studies, till we cannot help ourselves. There is one case in which we cannot help ourselves Among the obstacles that encumber the path of individual economy and commercial ambition in all civilized countries, replacing the much fiercer and ruder obstruction of uncivilized times and countries, there stands out one conspicuous, *taxation*.

Is taxation in any sense a form of economy? It was not so taken by Ricardo when he wrote of the 'Principles of Political Economy *and* Taxation.' It is a stretch of charity to speak of it as a blessing, though of course it may be the *price* of a blessing. We try to reduce the cost of all blessings to a minimum, and if we could get those of the State without paying for them we should certainly do so. As one of your own poets

has said, "no price is set on the lavish summer;" and we do not prize it the less. The State, however exacts a price and that price (or one of the prices) is taxation.

It is not true that taxation is a sort of "robbery under arms." It is certainly a disturbing element in the private economy. But a well ordered society is only conceivable nowadays under the shelter of a well ordered State, and therefore the economy of the State is a condition of the economy of the individual, disturbing it for its own good, or so intended. In paying for it the individual is no more suffering outrage than when he pays for the other necessaries of his life, few of which can be had at the price of the lavish summer. He suffers hardship only if the economy of the State is not so well ordered that the steps involved in it, say for Defence, Justice, and Public Works, disturb his private economy as little as may be and are therefore for their purpose as efficient as they may be.

Political Economy may have some light to throw on the extent of the disturbance and on the possible minimum of disturbance and the way of securing it. What are called the Canons of taxation (equality, certainty, convenience, and economy) are perhaps all reducible to one, economy; they are the rules laid down by economists for the guidance of statesmen who wish to enable the economic tendencies of commercial ambition to make their way through necessary obstacles with least friction, if the metaphor be allowed.

Except Cantillon perhaps all economists of the earlier period had taxation either frankly in their text or else constantly in their minds and peeping out in the text. One main object of Adam Smith was to wage war against bad taxes, not simply to work out an economic system. As the theology of the church would hardly have been defined but for the heretics, the doctrines of political economy might have lain longer undefined but for the mistakes of finance ministers, the practical men who were too often poor in theory or without it altogether. We need not have gone to theology; Malthus was roused to think out a true theory by the heretical speculations of Godwin.

The financial heresies, however, although unconsciously built on false theories, do not come down upon us as speculations but as claimants for our contributions. The most insidious disturbing element to the student of taxation is his private interest as regards the tax gatherer. Other obstacles or burdens in the way of our private prosperity may seem to have been put there by nature or providence; but here is one that comes from a cause operating by human will and modifiable conceivably by our own will or powers of persuasion. Like other people the economist may have a bias of self interest. One of the few virtues which the modest Ricardo believed himself to possess was indifference to his self interest. No doubt this impartiality was made easier by his wealth and the subdivision of his investments. But with an effort

even the poorest of us may be as impartial as David Ricardo; and to be genuine political economists we must make the effort. Suppose we succeed we have still other disturbing elements. As the theory of taxation is more personally interesting to the public than, say, the theory of subjective value (value in use), the air is full of maxims about it. There seems to be a special temptation here to be led by one plain simple rule as it will be called —a rule of which the simplicity is greater than the simplicity of nature. Never was there a case where in all civilized countries of the modern type it was more evidently impossible to put the whole truth into a short sentence. If we try to do it, the maxim becomes at once a disturbing element. It needs courage to say "I cannot put the whole truth in a nutshell"; but there never was a nutshell big enough to hold the entire truth. We must deny ourselves the popularity of the demagogue, which in such matters proceeds from an inglorious ease in theorizing.

We must not even be tempted by dicta of economic writers. There is an optimistic dictum "All taxes are so shifted that nobody bears any burden," —with or without the reservation "in the long run," which is supposed to make any paradox true. There are contrary dicta "All taxes fall on the land"— "All taxes ought to fall on the land"— "All taxes tend to stay where they are put." Of these four the last is nearly as optimistic as the first (or diffusion theory) though asserting the

polar opposite, and precluded from appeal to the long run.

From the diversity of occupations, division of labour, and increasingly complicated forms of the industrial system, it has followed in fact, even without the disturbance of law and politics, that civilized nations require not one tax but a system of taxes. It may or may not be right to add that the load of taxation should be distributed over the economic faculty of the society or even of the individual, as a physical burden is adjusted to the back and muscles; this is a flagrant figure of speech and may justly, therefore, be suspected.

The maxim of *equality* though it suggests the political motto already considered has little to do with it but in name. If "final utility" has taught us less than was expected elsewhere, it has been a distinct help in the theory of taxation. An equal levy, say a poll tax of $100, is not equal in burdensomeness to all citizens; nor is an equal *rate*, say 10 per cent of income, even of net income. The poor man misses his 10 per cent more than the rich and more surely lives the worse for it. This truth well understood helps us to the conclusion that the economically strongest should bear the weight of taxation. All taxation is an evil; the question is, since taxation is inevitable, who should bear it and who can bear it most easily. The diminution of the rich man's economic faculty will be less in proportion though the apparent burden thrown on him be greater than on the poor man; and this means

that the drawback of taxation to economy all the nation over, and therefore to the national economy, will be at its minimum when the heaviest burden is borne by the economically strongest.

In the same way we need not be turned from a tax by being told it is "robbing Peter to pay Paul." It may be absolutely necessary to pay Paul (as in England we pay him an Old Age Pension), and Peter may be well able to help Paul, and not at all unwilling.

Perhaps you say unwillingness has nothing to do with an economic argument. But absence of unwillingness means that the tax is not odious, and an odious tax is likely either to be evaded or to produce an uneconomic course of action.

There is a breaking point in the strain (if we may use a scientific figure with our own *caveat* in our minds), even when the strain is put on those best able to bear it. It may be true that taxation puts no obstacles in the way of the economic man greater than nature has in most cases put already; but we must remember that nature sometimes makes them too great for endurance, and the taxing authority may conceivably do the same. This leads to a larger question, of what is called State Interference. Taxation (except to those who say that not only fees but all taxes are a *quid pro quo*) is a case of very decided interference. There can hardly be "*laisser faire, laisser passer*" with "that two handed engine at the door."

The Socialistic State of the popular imagination

would convert all economy into public economy; and there would be no economic activity in the old sense of the term. But there are not many socialists of this type. The ideal of reformers not averse from the name socialistic is more often a State that carries regulation farther than at present, but retains commercial ambition with its claws cut. It is simply more of what we now have to a smaller extent. *Within* the great civilized countries (though hardly *between* them) there is not in most cases a regulation so severe that it prevents us from saying that *laisser faire* is the general rule; the economist need not fear that the economic tendencies which he traces out as resulting from commercial ambition will all be stopped by the State; there is usually scope somewhere for a true economic tendency, if not with us, as Plato would say "somewhere among the barbarians." It is not the "liberty" of the political motto we considered at first; but perhaps on that account it is nearer true freedom. That we are not allowed to trade in men or to treat men as tools or mere animals is not even an economic hardship. *Laisser faire* carried to that extremity would not justify itself even in the long run.

If an appeal for unlimited commercial competition is examined it will probably be found to mean either that we are asked to begin with a *tabula rasa* and mere struggle for existence, which we cannot do without ceasing to be civilized,—or else that the existing legal distribution of property,

resulting from a history in which there was little *laisser faire* and every kind of interference, is to be taken as it is, undisturbed, and the very unequally equipped competitors are to pursue their careers in business without any *new* interference. If one of the less fortunate in the distribution were to protest that his economic activity could not be the best possible if the results of the old interference remained to his disadvantage, the best answer seems to be that to accept the situation as it stands is likely to produce less waste than to "shatter it in bits and then remould it nearer to the heart's desire." It seems the right answer. But it means that we know we have two *evils* before us and are choosing the less; and from the less which we allow to remain we are bound to clear away, from time to time, what ingredients of evil can be reached and expelled, even by interference of the State. Prof. Foxwell's wise advice is not to be forgotten; it is more important to see that the acquisition of new wealth proceeds justly than to try to redistribute wealth already acquired. But we need not concede more than his concession, that it is "*more* important and *more* practicable."

Of course countries differ greatly from one another in their "existing situation." The distribution of property in England was probably one of the *worst* among the trading nations at the time *laisser faire* was most loudly demanded by certain writers; it is even a point in favour of the more rigid view of *laisser faire* that on the whole so

much progress in better distribution has been made under an approach to *laisser faire* in England since that time. The United States, on the other hand had at that time a position among the *best*, and if *laisser faire* had begun then (it might be argued) it might best have secured economic prosperity for all. There was a wider equality of fortunes from which to start.

The wisdom of governments, however, has decreed that in any case no such experiment should be tried between nations, say, between the United States and Canada; and now the effects, especially in the States, of one kind of interference need to be counteracted by means of another kind of interference; the tariffs make the trusts possible and then laws are passed to keep the trusts in check. The resources of America are so vast that effects of mistakes of this kind (for so they seem to many of us outside) are less serious than elsewhere. There is perhaps at this moment no single state of the Union and no province of Canada, perhaps there is not even one *county* of either, that could faithfully be described as impoverished. If *laisser faire* in England means "plague take the hindmost," in the United States the hindmost escapes the plague, and has such tolerable prosperity himself, outside of the great cities, that he can afford to tolerate the millionaire. But it seems possible that, if the States had been thorough going in their *laisser faire*, they would not have seen such a phenomenon as a millionaire or a

prolétaire at all. The enthusiastic writings of Richard Cobden about America read a little sadly now, however much of the praise is still due.

The civilized nations of the world are now a group of great empires, of which the United States are one. Are these to be a nightmare to us? They have one advantage from the economist's point of view, their sheltering power. Within them trade and commerce have peace and within many of them not only peace but freedom. The sheltering power is a priceless advantage. A country like Canada under the shelter of the British Empire can go forward in its economical development without more than a sentimental participation in the care of defence, which vexes public men in the parent country quite as much as the "eternal want of pence" in Tennyson's Monologue. It is unlike a state of the German empire, in escaping the military *corvée* and in having the privilege of a tariff of its own making and a real self government of a highly democratic character. In the United States you have, quite apart from the new conquests, what is really an Empire of States, giving to all of them shelter and peace within its borders, states, little less in population than Canada and yet economically one with their sheltering power. Over your vast area, teeming with men and with every variety of competitive industry, economic tendencies have little hindrance. The friction begins on the

frontier. Elsewhere there is an almost ideal situation for the student of political economy to study. No doubt there is waste, not the huge waste of the warlike communities of Europe, perhaps in a sense more culpable than theirs for it is the waste of wanton strength; but its consequences are not so wide spread over the nation, the strength of the whole nation being so great.

Englishmen are sometimes surprised that political economy is so much studied in the States; but it would be strange if it were not so. Almost every conceivable phase of economic tendency finds scope in one or other state of the Union. This very University has produced a work showing the extraordinary diversity in taxation alone between the members of a small group of states. The diversities not yet described must be legion.

It is true that there is still economic friction created on the frontier by the economic policy of the ruling body. The day has not come when (as Adam Smith suggested) the different countries have a system of free imports and are related to each other commercially as different parts of the same country, say different states of the same Union. To the economist there are strictly speaking no principles of international trade, none differing economically because nations differ politically. There are principles of trade modified by distance, unlike habits, and difficult communication; but those are illustrated by New Orleans and New York quite as well as by New York and

Toronto. The superadded questions, superadded by difference of nationality, are mainly those of taxation.

Such as they are, it is only too probable that they will need to be considered by economists for some time to come. Economists will have the task of reading out of and through those obstacles the perturbed course of economic tendencies, before which they would like to see spread a fairer field. Just as we might wish to economize legal intellect in the Old Country by the removal of antiquated subtleties of the law, so we might wish to economize economic intellect in the New Country by the removal of fiscal subtleties that shed no light on economic principles but reflect, instead, the workings of vested interests and international jealousy. It is not only the modest talent of the economist but the commanding genius of the statesman that would benefit by the removal. It has been already remarked that Protection would disappear with international jealousy. Its disappearance might be hastened if the ordinary ideal of the State (supposing that there is any articulate and conscious ideal of it in the average citizen) were higher than it seems to be. Economists were once accused of a desire to undervalue the State and lower its functions. The assertion may be hazarded that modern economists are desiring to magnify the State when and because they would confine the action of the State to the great endeavours that alone seem worthy of it.

American statesmen are free from some of the hard problems at present absorbing the best intellects of England. They do not on this Continent discuss Home Rule and Church Establishment; the problems are solved; and there is little or nothing of the "Land Question." There is no trouble about a hereditary Chamber of Peers. You have already Payment of Members. National Defence sits easily on you all. But you have retained the many-headed fiscal problem of which English statesmen rid themselves sixty years ago; and you have still a Civil Service of the old rather than the new English pattern.

The heavy-laden English Parliament, with your solved problems on its hands unsolved, would have little hope of solving them if it needed, in addition, to help all classes of English tradesmen to carry on their business, and provide political friends of the ruling party with posts in the public service. America has the large problem of Race to solve. But a continent saved by its position in nature and by its fortune in history from vexations bequeathed to Europe by the middle ages might seem to have a larger hope than Europe can ever cherish. It may well hold it, so long as it enforces a Munroe doctrine against invading germs of European distress and poverty and wrong. Unless it keeps before it the end of securing and preserving the highest possible type of citizenship, the State, even though democratic, may realize the fears of the 18th century *philosophers*

who had some share in the founding of this American Commonwealth; it may cause more evils than it can cure.

Such as it is, the State is indispensable, and each private citizen must do his best to cure its evils. Perhaps the greatest danger in a prosperous democracy is the political apathy of the "respectable classes." Educated men should take to heart Plato's old warning that the hardest of punishments is to be governed by a worse man than yourself.

From all experience, none are likely to do their part more loyally than students of political economy. Reflection does not lead to inactivity; it only makes the action itself more wise when the reason for action is brought home. Meet the malady in its first stage:

"*Venienti occurrite morbo*:
With which moral I drop my theorbo."

NOTES

I

PAGE

1. 'Conscientious judge.' They say in Canada: "So upright that he leans over backwards."

   'Mill's Plan,' *Dissertations*, Vol. I, Bentham, p. 391.

3. 'Book in breeches,' a description of Macaulay.

4. 'Relative vindication,' a favourite phrase of Prof. Edward Caird.

5. 'Legal friend,' Sir Thomas Raleigh, the most recent editor of Cornewall Lewis's *Political Terms*.

7. 'To make rights secure.' *Wealth of Nations*, IV, v, sect. iv. So in the *Lectures*, edited by Dr. Cannan, p. 160, he says the end of *law* is security from injury, and the establishment of laws and government is the highest effort of human wisdom.

   'Mercantile republic,' IV, I.

   'Different provinces,' IV, v, sect. iii.

   'New colonies,' IV, VII.

   'Equality of remuneration,' I, X.

   'Equality of advantage,' IV, III, vi (second paragraph).

8. 'An English writer.' F. C. Montague, *Limits of Individual Liberty*, Rivingtons, London, 1885, p. 6.

   Thorold Rogers, *Six Centuries of Work and Wages*, Sonnenschein, London, 1884, *e.g.*, p. 326 (ch. XII).

10. 'Simply the addition of such units.' James Fitzjames Stephen, *Liberty, Equality and Fraternity*, Smith Elder, London, 1873, p. 190.

    'Each woman also,' Bentham, *Reform Catechism* (1818), p. 35, 36, and note.

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13. 'Population in the forefront.' See J. S. Mill, *Autobiography*, published 1873, p. 105, etc.
16. 'Small wonder.' See *Autobiography*, p. 232. The date is 1841 and afterwards.
23. 'Stephen sums up.' *Liberty, Equality and Fraternity*, p. 263.
24. 'Increases with all true civilization.' The Japanese during the late war with Russia are said to have taught many of their illiterate prisoners to read and write Russian.
25. 'Honour thy father,' etc. Stephen, *ib.*, pp. 211–2.
27. 'Categorical imperatives.' At Baltimore, time ended the lecture at this point, but the following passage is given as originally written.

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30. 'David Hume.' *First Principles of Government*, 1741.
31. 'Struggle of J. S. Mill.' *Unsettled Questions*, last esssay, on Definition and Method (dating from 1836).
33. 'Used indifferently'—like the words habit and custom; the former strictly of the individual, the latter of the group.
34. Sir William Temple's Works, 4th ed., 1720, Vol. I, pp. 47, 61, and 97.
45. 'Professor Patten's language.' *Dynamic Economics*, 1892. *Social Statics* is the name of a book by Herbert Spencer (1850), and the term occurs in Comte's *Philosophie Positive*, 1839. See J. S. Mill, Pol. Ec. IV, I.
46. 'Without doing what Bacon told us.' 'State super vias antiquas', *De Augmentis Scientiarum*, Book I (p. 458 Vol. I in the edition of *Bacon's Works*, by Ellis and Spedding, Longmans, 1872). "Quum autem de via bene constiterit, tunc demum non restitandum sed alacriter progrediendum." The reference is to Jeremiah, VI, 16.

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48. 'L'homme aux quarante écus.' The minister's answer to the wiseacre was: 'I declare you exempt from the tax.'

'Second best faculty.' So Mill says in his *Autobiography* (p. 82): "The writings by which one can live are not the writings which themselves live and are never those in which the writer does his best."

'A good saying of Mill's,' *Liberty*, p. 148.

52. 'Collective wisdom,' Aristotle, *Politics*, III, 6. Carlyle, *Latter Day Pamphlets*, *e.g.*, I and VI.

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59. 'The proof of the pudding.' Professor Stout's words in *Mind*, 1907, p. 581.

61. 'Sanely and wisely,' J. N. Keynes: *Scope and Method of Political Economy*, Macmillans, 1891.

62. 'Too practical,' Ricardo's *Letters to Malthus*, p. 96, compare 126, 167.

66. "The late Henry Sidgwick." The writer had the privilege of publicly expressing this obligation to Mr. Sidgwick himself at the Banquet of the British Economic Association, 28th March, 1900.

74. 'Professor Hollander,' *Quarterly Journal of Economics* (Harvard), January, 1895.

77. 'Minor economists,' J. R. McCulloch, Henry Fawcett. In this case W. N. Senior takes side with Ricardo and Malthus, the major economists.

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84. 'Modelled on the physical sciences.' Prof. S. Patten: *Dynamic Economics*, page 12.

'Condition of sound navigation.' Quesnay *apud* Daire, Physiocrates, I, 52.

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86. 'Imaginary machine,' Adam Smith, *Essays*, History and Astronomy, 4to ed., 1795, p. 44. Cf. Mor. Sent., Vol. I, Part IV, ch. i, p. 455 (6th ed.). Hume was perhaps the worst offender, comparing the attraction of the sexes among savages with the attraction of two flat pieces of marble, Hum. Nat., *Book* II, *Of the Passions*. Part III, sect. i, Of Liberty and Necessity, Vol. II, p. 224, ed. 1739.

87. 'Similes from Physiology,' *e.g.*, *Wealth of Nations*, IV, VII. Colonial Policy. 'In her present condition [1776] Great Britain resembles one of those unwholesome bodies in which some of the vital parts are overgrown and which upon that account are liable to many dangerous disorders,' etc. (McCulloch's edition, p. 272). So IV, IX. 304. Agricultural Systems. The 'unknown principle of preservation' contained in every healthy human body has its counterpart in the 'natural effort which every man is continually making to better his own condition.' The former corrects a faulty regimen and the latter a bad economic policy.

Quesnay *apud* Daire, I, 54; Droit naturel. Reason is to the mind what the eyes are to the body.

Hegel and Herbert Spencer. *Philosophy of Right*, p. 319, §263, Zusatz; §269, Zusatz. *Study of Sociology*, ch. XIV. Preparation in Biology, p. 335.

88. 'Less ambitious.' There is an evident analogy; but it may not be right to argue, for example, that, because a substance which could neither be assimilated nor thrown off would be fatal to the body of flesh and blood, therefore the Chinese and Japanese will be fatal to the body politic in North America.

'Witty saying,' of Mr. W. H. Mallock in the *New Republic* (1877).

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89. 'Aristotle noticed' *Politics*, III. 6. For statistical uniformity see A. L. Bowley's *Elements of Statistics*, 2d ed., 1902, p. 7. The reference to Mr. Karl Pearson is on p. 5.

90. 'Physiology is said' etc. See Spencer, *Study of Sociology*, pp. 334–5. Milne Edwards is, there, said to have first reached the idea of a 'physiological division of labour.'

91. 'Species by itself,' *loc. cit.*, p. 101.

'The State as an organism,' see Hegel, *Philosophy of Right*, §§46, 258 (Zusatz), 259. The book dates from 1820.

'A Super-Man.' "Ich lehre Euch den Uebermenschen. Der Mensch ist etwas das überwunden werden soll." Nietzsche, 'Also sprach Zarathustra.' *Vorrede*, 3d ed., 1894, p. 8.

93. 'More reserve now.' Prof. Carl Menger: *Methode der Socialwissenschaften*, 1883, pp. 139 *seq.*, is discriminating. Even in a popular book like J. R. Macdonald's *Socialism and Society*, 1905, the limitations are acknowledged.

96. 'Violations of justice.' See *Wealth of Nations*, I x, 65 (near end of ch.), IV, v, 236 (Digression, section i).

97. 'Defects of slavery.' See *Wealth of Nations* I, viii, 36, 37; IV, vii, 263; IV, ix, 309.

100. 'H. D. Macleod.' *Economics for Beginners*, 1878, pp. 2, 3, 21, 76.

101. 'Professor Stammler,' Prof. Rudolf Stammler of Halle, *Wirtschaft und Recht nach der Materialistischen Geschichtsauffassung*, 1896, 213 *et seq.*

102. 'Bacon,' *Novum Organum*, I., Aphorisms, xxxviii to xliv.

'The personal bias.' 'Never let yourself go wrong in your *logic;*' said the old lawyer to the young, 'you are sure to be found out; the *facts* are at your disposal.'

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105. 'Professor Marshall,' *Principles*, 1890, 1st ed., Book I, ch. iv, §1. 'Custom is a disguised form of slow-moving competition' and with an effort we may penetrate the disguise. The passage has been modified in the later editions.

'Countries extracting the precious metals.' See Cairnes on 'The Australian Episode,' in his *Essays on Political Economy.*

105. Ricardo, 3d ed., 1821, of his *Political Economy and Taxation*, p. 469.

106. 'In the long run.' The phrase has a sensible advantage over 'In the end.' Economic facts are better described as in motion than as at rest. Rest is in any case only a mode of motion.

108. 'Marshall.' *Principles*, 1st ed., 1890, v, iv, 411. *Economics of Industry*, 1892, pp. 228 *seq.*

112. 'Religious persecution.' See Fitzjames Stephen: *Liberty, Equality and Fraternity*, pp. 87, 95, 96.

113. 'Time may be measured.' This is an affair of prosaic calculation. It is not the affair of sentiment described in "As you Like It" (iii, ii): 'Time travels in divers paces with divers persons. I'll tell you who time ambles withal, who time trots withal, who time gallops withal, and who he stands still withal.'

117. 'Meant to be patriotic.' Men "learn for example to love their country, though it surprises that such an abstraction should excite so much interest." J. R. Seeley, *Ecce Homo*, pop. ed., p. 143, ch. xiii.

118. 'One of your own poets.' J. R. Lowell. *Sir Launfal.*

119. 'Robbery under arms.' Cf. Whately: *Pol. Ec.*, 24 ed., 1832, lect. i, pp. 10, 11. Unless taxation is a just (though involuntary) exchange, it is (he says) avowed robbery.

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120. 'Except Cantillon.' A large exception if it is to Cantillon we are to 'go back' in Economics as to Kant in Philosophy. More have told us to 'go back' to Adam Smith. 'Going back' may sometimes perhaps be a cautious way of going forwards—*reculer pour mieux sauter*. But it has its pitfalls.

'Indifference to his self-interest.' *Letters to Malthus*, Preface, xiv.

121. 'Of which the simplicity is greater than that of nature.' Cf. Bacon, *Nov. Org.* I, XLV: 'Intellectus humanus ex proprietate suâ facile supponit majorem ordinem et aequalitatem in rebus quam invenit.'

'Dicta of economic writers.' (1) Verri and Canard, (2) Physiocrates, (3) Henry George, (4) Thorold Rogers. See A. R. Seligman: *Shifting and Incidence of Taxation*, 1892, p. 39; and Cobden's remarks on the idea that a national debt is wholesome because 'in the system.' *England, Ireland, America*, III (1835).

125. 'Professor Foxwell.' Preface to the English translation of Anton Menger's *Whole Produce of Labour*, cx, (1899). The dictum wins assent (it may be suspected) because we take for granted that, since redistribution is always going on, the new and better distribution will under this supervision 'in the long run' supplant the old unsatisfactory one; and this consummation seems likely to be secured, if the supervision is strict and vigilant.

127. 'Richard Cobden,' *England, Ireland and America*, 1835.

128. 'Different parts of the same country,' *Wealth of Nations*, IV, V, 240.2.

131. 'Hardest of punishments.' Republic, I, 347. C.

131. 'I drop my theorbo.' Browning, *Dramatic Romances*, 'The Glove.' Works, 1868, Vol. IV, 178.

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